



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES**  
**POLICY DEPARTMENT**



**TRADE AND ECONOMIC  
RELATIONS WITH  
TURKEY**

**INTA**



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION**

**DIRECTORATE B**

**POLICY DEPARTMENT**

**STUDY**

**TRADE AND ECONOMIC RELATIONS WITH TURKEY**

**Abstract**

This study presents an overview of the current state of the economic and trade relations between the EU and Turkey. It starts with an assessment of the Customs Union with Turkey followed by Turkey and WTO, including a brief analysis of the latest Trade Policy Review. Then follows an assessment of Turkey's trade relations with the Caucasus, Central Asia, Russia and the Mediterranean region as well. It examines also the trade relations with China. The last section deals with the horizontal issues such as Energy, the textile industry, Intellectual Property Rights, Market Access, Sanitary and phytosanitary issues, Small and Medium Sized Enterprises, and Antidumping policies.

This study was requested by the European Parliament's Committee on International Trade.

**AUTHOR(S):**

Assoc. Prof. Durmuş Özdemir  
Istanbul Bilgi University  
Department of Economics & Bilgi European Institute  
Dolapdere Campus, Kurtuluşderesi  
Cad. No: 47 34440, Dolapdere, Istanbul- TURKEY

**ADMINISTRATOR RESPONSIBLE:**

Roberto BENDINI / Dominique DELAUNAY  
Directorate-General for External Policies of the Union  
Policy Department  
WIB 06 M 055 / WIB 06 M 053  
rue Wiertz 60  
B-1047 Brussels

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## EXECUTIVE SUMMARY

This paper presents an overview of the current state (February- 2010) of the economic relations between the EU, Turkey and the RoW. The text starts with an assessment of the Customs Union with Turkey, followed by Turkey and WTO, including a brief analysis of the latest Trade Policy review. Then follows an assessment of Turkey's trade relations with the Caucasus, Central Asia and the East, potential trade developments in the region. After that, Turkey's trade and economic relations with the Mediterranean region is discussed. The last three sections before conclusion are Turkey and China, Horizontal issues and an assessment of Turkey's commitment towards environment-friendly trade policies.

The paper argues that integration has proved to be a successful tool in support of the economic development and also, to some extent, in stabilizing a politically sensitive country. Therefore, for the EU, it is worth pushing for the next steps in CU and Turkey's full membership to the EU as strongly as possible and thus enhancing stability and sustainable growth. The EU is in an ideal position to continue reforming Turkish institutions and its assistance in fighting for better good governance indicators. Given the economic recovery, FDI inflows and growth so far and the earlier experience of the current new member countries, it can be foreseen that the returns to unskilled labour in Turkey will gradually decrease over time. Therefore, it is desirable to support actions which may increase the skills of the whole working-age population in Turkey and help to lessen current and future social pressures.

There are many conflicting studies about the costs and benefits of the CU between Turkey and EU. For any trade related policy to succeed, this evaluation should be made in the best way possible, with strong convincing empirical evidence, such that any opponents of trade policy (particularly liberal trade policy) cannot use the CU as an excuse for negative (or positive) propaganda in the direction of their special interest. More diversification of export destinations and the continued curbing of dependency on Europe as the primary destination would also hedge against possible adverse currency fluctuations in the Euro zone. Turkey should continue to expand to neighboring countries and regions as new and increasing export destinations. Complementarity with EU should be studied better and target destinations should be evaluated accordingly. Trade creation and trade diversion effects of trading with EU should be evaluated in the light of these new destinations (such as Russia, China, Iraq, Iran, etc...). Turkey should also have a better long-term strategic trade policy in agriculture, aligned with EU. Modernization and liberalization in this sector would inevitably increase unemployment, so a comprehensive reform package would be necessary. Turkey should rethink its position if/when the Doha Round reconvenes. Turkey should strengthen the trade potential of SMEs by improving, internationalization and investment promotion facilities, increasing the technical capacity, foreign trade support units, training sessions, seminars, workshops, business support services and "start-exporting Programs".

Turkey should promote the increase in the services trade along the lines of a future plan for knowledge-based economy (or at least a semi-skilled labor oriented expansion.) Turkey is possibly emerging as an energy hub between Europe and energy suppliers like Russia, Iran, Iraq and Turkmenistan. This could open up room for new strategic trade policies in energy, which could also affect EU candidacy or other privileged partnership options.

Although EU-Turkey relations have been dominated by the concern of political issues in Turkey such as democratization, human rights, the Cyprus problem etc., the paper does not address these issues, at least not directly.

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## LIST OF ACRONYMS

- ATP – autonomous trade preferences
- BSEC- Black Sea Economic Cooperation
- BoP - Balance of Payment
- CAP: Common Agricultural Policy
- CA – Current Account
- CEE – Central and Eastern Europe
- CEFTA – Central European Free Trade Agreement
- CPI – consumer price index
- DDA- Doha Development Agenda
- EC – European Commission
- EC -European Community
- EEA- European Economic Area
- EEC- European Economic Community
- EFTA – European Free Trade Association
- EMU- European Monetary Union
- EU – European Union
- FTA – free trade agreement
- GATT- General Agreement on Tariffs and Trade
- GATS- General Agreement on Trade in Services
- GDP- Gross Domestic Product
- GPA- Government Procurement Agreement
- GSP- Generalised System of Preferences
- IA – Interim Agreement
- IPA – Instrument of Pre- Accession
- IPR - Intellectual Property Rights
- ISIC - International Standard Industrial Classification of All Economic Activities.
- MFN - Most Favoured Nation
- NTBs – non- tariff barriers (to trade)
- OECD- Organisation of Economic Co-operation and Development
- PAP – Processed Agricultural Products
- PTA- Preferential Trade Agreement
- PPP – purchasing power parity



RCA – revealed comparative advantage in bilateral trade

RCC – Regional Cooperation Council

RTA- Regional Trade Agreement

SEE – South East Europe

SEECF - South East European Co-operation Process.

SAA – Stabilisation and Association Agreement

SAP – Stabilisation and Association Process

SITC – Standard Industrial Trade Classification

TBT - Technical Barriers to Trade.

TAIEX – Technical Assistance and Information Exchange

TR – Turkey

UNCTAD – United Nations Conference on Trade and Development

WTO- World Trade Organization

## 1 BACKGROUND: EU TRADE AND ECONOMIC RELATIONS WITH TURKEY

Turkey's integration with the EU has a long history. It applied for associate membership just two years after the establishment of the EEC in 1959. Four years later, the application resulted in the Ankara association agreement, which had an intermediate goal to gradually form a customs union with the EEC by 1995. The Customs Union between Turkey and the EU has been operational since the beginning of 1996. Between 1996 and 2001, tariffs and quantitative restrictions on trade between Turkey and the EU were gradually removed. Moreover, Turkey aligned its trade policies with the EU vis-à-vis third countries and started to implement common standards, rules and regulations. The aim of the customs union was seen as a step to a full membership which was the ultimate goal. Turkey was officially recognized as an EU candidate in December 1999, and in December 2002 the European Council announced that if Turkey met its political 'Copenhagen' criteria by the end of 2004 it would open negotiations without delay. Turkey started its membership negotiations with the EU in October 2005 after a 16 year delay. So far, negotiations have been opened on twelve chapters (*Free Movement of Capital, Enterprise and industry, Statistics, Financial Control, Trans-European Networks, Consumer and health protection, Intellectual property law, Company law, Science and research, Information Society & Media, Environment, Taxation*) one of which was (*science and research*) provisionally closed.

**Table 1: Basic economic indicators of Turkey, 2005–2009**

| Year                     | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------------------------|------|------|------|------|------|
| GDP Growth in %          | 8,4  | 6,9  | 4,7  | 1    | -6,5 |
| GDP (PPPadjusted P.C.)** | 8,2  | 9,0  | 9,5  | 9,7  | 9,1  |
| CPI inflation(in%,eop*)  | 7,7  | 9,7  | 8,4  | 10,1 | 5,8  |
| Population (millions)    | 67,9 | 68,1 | 68,9 | 69,7 | 70,4 |
| CA in % of GDP           | -4,6 | -6,0 | -5,8 | -5,7 | -1,9 |
| Unemployment Rate        | 10.7 | 10.3 | 11.5 | 11.6 | 13.0 |

Source: IMF WEO (October 2009), TSI Turkish Statistical Institute ([www.tuik.gov.tr](http://www.tuik.gov.tr))

Note: \* - end of period, \*\* \$ / € parity is fixed and taken as 1.35, (GDP PC is in thousand Euros)

Turkish membership to EU has a number of economic and political impacts. As it was depicted on table 1 and 2, Turkey is a large country in population terms and a small one in economic terms. Turkey's economy is just 1.9% of EU25 GDP. Turkey's GDP per head (at purchasing power parity) is only 27% of the EU average. Turkey's economy is also characterized by major regional inequality. Turkey's macroeconomic situation is stabilizing after the 2001 economic crisis – opening of negotiations is expected to impact strongly and positively on the sustainability of this recovery. However many further economic reforms are necessary. Labor market – and education – reforms are vital if Turkey is to use its economic potential. Given its small size, Turkish accession will have minimal impact on the EU economy. According to predictions, It might have a very small but positive impact on EU25 GDP of 0.1-0.3% of GDP. The EU could benefit in particular from the different demographic profile of Turkey, with its much younger, growing population. Foreign direct investment in Turkey was exceptionally low but after the candidacy status there has been a large inflow into Turkey. The prospect of EU membership together with increased political and economic stability at macro-level, and major reform of barriers at micro-

economic level – including tackling corruption and problems in the judiciary could result in much higher FDI flows. As a large poor country, Turkey will be eligible for significant budget transfers from the Union – though these will both depend on policy reforms in regional and agricultural policies in the EU in the next ten years, and on the actual negotiations. Both the EU's common agricultural policy, and agriculture in Turkey will need further reform.

**Table 2: GDP per capita (000 in Euro) with current prices of EU, new members of EU and Turkey 1996–2009**

|                       | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| <i>eu27</i>           | 15,4 | 16,2 | 16,9 | 17,8 | 19,0 | 19,7 | 20,4 | 20,7 | 21,6 | 22,4 | 23,5 | 24,8 | 25,8 | 26,8 |
| <i>EU 15</i>          | 18,9 | 19,8 | 20,7 | 21,7 | 23,1 | 23,9 | 24,6 | 24,9 | 25,9 | 26,7 | 27,8 | 29,1 | 30,1 | 31,1 |
| <i>Bulgaria</i>       | 0,9  | 1,1  | 1,4  | 1,5  | 1,7  | 1,9  | 2,1  | 2,3  | 2,6  | 2,8  | 3,3  | 3,8  | 4,3  | 4,9  |
| <i>Czech Republic</i> | 4,7  | 4,9  | 5,4  | 5,5  | 6,0  | 6,8  | 7,8  | 7,9  | 8,6  | 9,8  | 11,1 | 12,4 | 14,7 | 15,7 |
| <i>Estonia</i>        | 2,6  | 3,2  | 3,6  | 3,9  | 4,4  | 5,1  | 5,7  | 6,4  | 7,1  | 8,3  | 9,8  | 11,6 | 13,0 | 14,3 |
| <i>Latvia</i>         | 1,8  | 2,3  | 2,5  | 2,9  | 3,6  | 4,0  | 4,2  | 4,3  | 4,8  | 5,7  | 7,0  | 8,8  | 10,6 | 11,7 |
| <i>Lithuania</i>      | 1,8  | 2,5  | 2,8  | 2,9  | 3,5  | 3,9  | 4,3  | 4,8  | 5,3  | 6,1  | 7,0  | 8,3  | 9,7  | 10,8 |
| <i>Hungary</i>        | 3,5  | 3,9  | 4,1  | 4,4  | 5,1  | 5,8  | 7,0  | 7,4  | 8,1  | 8,8  | 8,9  | 10,0 | 10,3 | 11,0 |
| <i>Malta</i>          | 7,6  | 8,4  | 8,8  | 9,4  | 10,8 | 10,9 | 11,3 | 11,1 | 11,2 | 11,8 | 12,5 | 13,1 | 13,7 | 14,3 |
| <i>Poland</i>         | 3,2  | 3,6  | 4,0  | 4,1  | 4,9  | 5,6  | 5,5  | 5,0  | 5,3  | 6,4  | 7,1  | 8,1  | 9,4  | 10,2 |
| <i>Romania</i>        | :    | :    | :    | 1,5  | 1,8  | 2,0  | 2,2  | 2,4  | 2,8  | 3,7  | 4,5  | 5,6  | 6,0  | 6,9  |
| <i>Slovenia</i>       | 8,2  | 8,9  | 9,6  | 10,3 | 10,6 | 11,3 | 12,1 | 12,7 | 13,4 | 14,1 | 15,2 | 16,6 | 18,0 | 19,2 |
| <i>Slovakia</i>       | 3,1  | 3,5  | 3,7  | 3,6  | 4,1  | 4,4  | 4,8  | 5,5  | 6,3  | 7,1  | 8,3  | 10,2 | 11,3 | 12,3 |
| <i>Croatia</i>        | 3,7  | 4,1  | 4,6  | 4,3  | 4,8  | 5,3  | 5,8  | 6,3  | 6,9  | 7,0  | 7,7  | 9,1  | 10,1 | 10,9 |
| <i>Turkey</i>         | 2,3  | 2,7  | 3,8  | 3,6  | 4,3  | 3,2  | 3,5  | 3,8  | 4,4  | 5,4  | 5,7  | 6,5  | 7,3  | 7,9  |

Source: Eurostat.

Turkey has always been a focus of interest for the EU, for several reasons. Turkish membership would have a political impact because of its strategic geographical location, and its large Muslim population also has implications for the EU. It is in the EU's strategic interests that Turkey is democratic, stable and prosperous and a friendly ally. Turkish EU membership can – as with earlier enlargements – contribute to these strategic goals.

This study provides a detailed overview of the current economic and trade relations between the EU and Turkey, as well as its wider integration into the world economy. The paper has ten main sections. The next section provides an assessment of the Customs Union with Turkey. The following part presents Turkey and the WTO, including a brief analysis of the latest Trade Policy Review. The next 4 sections outline Turkey's trade relations with the Mediterranean Region, Black Sea Region, the Balkans, the Caucasus, Central Asia, the East, China and potential trade developments in these regions. Section eight focuses on horizontal issues. Section nine assesses Turkey's commitment towards environment-friendly trade policies. The last section provides the conclusion.

## 2 ASSESSMENT OF THE CUSTOMS UNION WITH TURKEY

The basic economic integration theory<sup>1</sup> describes the Customs Union (CU) as a 'free trade area with common external tariffs'. Furthermore, it emphasizes a suppressing discrimination for CU members in product markets. This Union also requires an equalization of tariffs and quotas for all members in trade with non members.

<sup>1</sup> i.e. Balassa's (1961) stages of economic integration.

The CU enforced on 1 January 1996 initially covers all industrial products and processed agricultural products, which corresponded to 93 % in value of the trade between EU and Turkey in 1995. Traditional agricultural products will be included in the Customs Union following Turkey's adaptation to the Community's Common Agricultural Policy. The parties ensure identical treatment to their imports from third countries, since EU and Turkey constitute the same customs territory in the trade of industrial products. The Association Council Decision (ACD) No 1/95 include provisions regarding:

- Free movement of goods (elimination of customs duties, quotas and measures having equivalent effect; compliance to the Common Customs Tariff),
- Harmonization of technical legislation,
- Alignment with the Common Trade Policy,
- Undertaking EU's preferential regimes,
- Turkey's compliance to the Common Agricultural Policy of the Community and preferential regime to be applied to the agricultural products,
- Compliance to the Customs Code and mutual administrative cooperation,
- Approximation of the laws (protection of intellectual property rights, competition rules of the Customs Union, trade protection instruments, public procurement, taxation),
- Institutional provisions (Customs Union Joint Committee, consultation and decision procedures, dispute settlement, safeguard measures).

## **2.1 Its functioning**

The ACD No 1/95, which was adopted on 6 March 1995, determines the Customs Union rules between Turkey and the EU and includes provisions that go beyond Ankara Agreement and the Additional Protocol. ACD No 1/98 (Preferential Agricultural Products Trade Regime), 2/2006 (Amendment to decision No 1/98) and 1/2007 (Amendment to Decision no. 1/95 regarding PAPs) have changed the CU in particular on Agricultural Products. According to the Commission reports between 1998 and 2009, there has been a significant progress achieved in the area of free circulation of goods and capital. Progress in labor mobility does not exist but the mobility of capital is relatively free. As part of the final phase of completing the CU, Turkey has eliminated all customs duties and charges having similar effects, as well as all quantitative restrictions and similar measures on industrial products from the Community. In recent years Turkey has maintained its efforts in regard to the customs union. The new Turkish Customs Code is almost completely aligned with the *acquis* and Turkey has almost completed the alignment of the Common Customs Tariff and its customs legislation. In 2008, a communiqué on the rules and procedures for implementation of binding tariff information (BTI) was adopted. Furthermore, the efforts for the adoption of the Generalized System of Preferences (GSP) including the autonomous tariff concessions applied by the EU against the developing and least developed countries have been completed as of 1 January 2008 for the products covered by the Customs Union. However, there are still shortfalls concerning free-trade zones, customs duty relief, fight against counterfeit goods and post-clearance. Moreover, legislation authorizing the presence of duty-free shops is not in line with the *acquis*. Despite some progress, the free movement of goods from or to Cyprus is not in place, which comprises the implementation of the *acquis*. The Cyprus issue will be addressed in a later section.

## 2.2 Areas covered and not covered by the Customs Union

The CU does not cover essential economic areas, such as agriculture, to which bilateral trade concessions apply, services or public procurement. The Customs Union is intended to cover industrial and processed agricultural products<sup>2</sup>.

Traditional agricultural products are not covered and will be included only after Turkey has completed the alignment of its agriculture sector with the EU's common agricultural policy. The Customs Union Decision (Art. 24) provides little guidance by saying that "The Community and Turkey shall progressively improve, on a mutually advantageous basis, the preferential arrangements which they grant each other for their trade in agricultural products". Market integration between Turkey and the EU does not start from scratch: trade preferences in agriculture have been granted by the EU to Turkey since the Association Agreement in 1963 and have been extended several times. Since 1987, almost all ad valorem tariffs have been abolished. In some cases reduced rates are also granted for specific duties. As a result, more than forty per cent of Turkish agricultural exports enter the EU tariff-free and for another fifty percent reduced tariff rates have been specified. Significant EU import barriers remain in force: i) high, specific duties for almost all imports of core products of the CAP, ii) specific duties for EU imports of many processed agricultural products, iii) the entry price system for eleven kinds of fruit, four vegetables, and grape juice, and iv) calendar restrictions for preferential tariffs for four different kinds of fruit and nine vegetables. Since 1998 Turkey is also granting significant preferences to the EU in the form of 39 tariff rate quotas at zero tariff rates in most cases (Gretha, H., 2004). Although the ACD No. 1/2007 has made some moderate changes but Gretha's outline mainly is in tact. It is very difficult and may be harmful to Turkish farmers to join the CU with traditional agro products before joining CAP. Furthermore the Turkish agricultural sector needs a major upgrading before such action could possibly be done. Cakmak and Eruygur (2007) simulated the possible enlargement of Turkey-EU customs union to agricultural products. The winners of such extension are the EU countries. According to their simulation, Turkey's imports from EU and from other countries for agro-food products will increase, however, except EU, all of the other countries will be subject to some degrees of substitution effects implying trade diversions for these regions.

The EU's views on the issue of the areas not covered in practice are outlined at the 2009 progress report for Turkey. According to the progress report, further alignment with the EU *acquis* is needed in the areas of free trade zones, free trade with the Republic of Cyprus, customs duty relief, abolishment of duty free sales, counterfeit goods and intellectual, industrial and commercial property rights. The issue of Cyprus, counterfeit goods and IPR are covered in more detail later on in this study. The operations in free trade zones are fully subject to customs procedures and Turkey should make the relevant amendments. The new law on free trade zones contradicts *acquis* on keeping some goods as exemptions. There is also no improvement on duty relief legislation in Turkey such as the existence of the duty free shops at entry points. Turkey's duty relief legislation should be in line with Customs Union obligations.

## 2.3 Practical and procedural issues hampering the functioning of the union such as customs clearance issues and existing Technical Barriers to Trade (TBT).

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<sup>2</sup> See the ACD No:1/95, 1/98 (Preferential Agricultural Products Trade Regime), 2/2006 (Amendment to decision No 1/98) and 1/2007 (Amendment to Decision no. 1/95 regarding PAPs) for a detailed outline of the CU coverage.

Very often, due to practical and procedural difficulties such as customs clearance and technical barriers, CU can be hampered. A technical regulation is described by DG Enterprise as; “a Document which lays down product characteristics or their related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory. It may also include or deal exclusively with terminology, symbols, packaging, marketing or labeling requirements as they apply to a product, process or production method.” First forms of technical barriers stems from the recognition of certification. Turkish goods produced under correct EU specifications can still face barriers upon export to the EU, since their certification is not recognized by the Community. The same is also true for EU exports into Turkey, as Turkish authorities may not recognize procedures in the EU and require duplicative testing and inspection. The second types of barriers are the use of actual technical regulations and the standards. The EU member countries very often use standards and technical regulations as a means to protect their domestic markets from outside competition by discriminating against Turkish suppliers, especially in processed and other agricultural products. These problems, caused by TBTs<sup>3</sup> need cooperative efforts to eliminate their adverse effects on trade flow. It is also true that the successful removal of TBTs differ from sector to sector. The most important factor for the removal of TBT's in Turkey is her institutional structure. Further liberalization requires a change in the institutional framework of Turkey, i.e. changes in standards, technical regulations and conformity assessment procedures. There is a considerable effort carried out by Turkey to remove the Technical Barriers to trade. For example the 1995 agreement on Technical Barriers to Trade with Turkey and WTO has been implemented in a large extend. As Ülgen and Zahariadis (2004) argued, the third problems arising from the institutional setting of state run (TSE) Turkish Standards Institute (TSE) in Turkey. The progress and prospects in the area of standardization is done by TSE<sup>4</sup> mark and by Turkish Accreditation Authority (TURKAK). The main problems of Turkish standardization seem to arise from the relatively low levels of transparency and openness of the system and they have a lengthy and costly procedure.

The following policy recommendations can be suggested for further improvement. On the Turkish side, the transparency of the Turkish system of standardization and conformity assessment could be improved. Technical capacity and infrastructure, in particular, critical areas of conformity assessment including metrology and calibration, quality certification and laboratory testing can be improved. In order to strengthen reputation-building and promote the recognition of equivalence, participation in European and international initiatives should continue. Progress in Turkey has been made towards IT interconnectivity with EU systems, as projects to develop the new computerized transit system and tariff-related systems have been advancing. Turkey has continued to increase the level of automation of the customs administration. Electronic Customs Clearance has become the norm but there is room for improvement, especially, for conduct of post-clearance audits.

#### **2.4 The issue of the negotiation of FTAs by the EU with 3rd countries automatically has a bearing on Turkey through the Customs Unions**

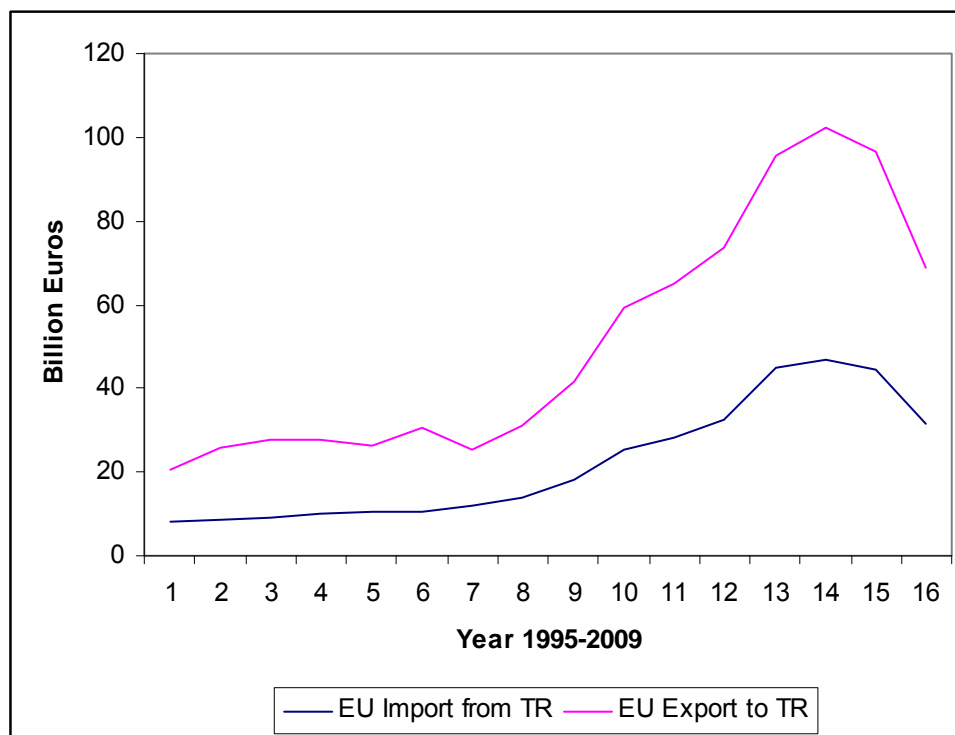
The static effect of CU in trade is divided into two parts: *trade creation* and *trade diversion*. If the increased trade with integration moves trade from the high cost producer to the low cost producer, then the effect is trade creation. This is also called ‘external trade creation’. In another sense, trade creation is about trade replacing home production or additional trade arising from increased consumption. Trade creation increases economic welfare, as higher-cost local production is replaced by lower-cost partner imports. The replacement of trade with non-partner countries by trade with partners

<sup>3</sup> The definition of TBT can be found in the Agreement on Technical Barriers to Trade of WTO.

<sup>4</sup> Quality Conformance Certificate (TSEK) produced by TSE.

is the trade diversion. This effect comes as a result of the removal of tariffs, quotas and non-tariff barriers (NTB's). Trade diversion reduces economic welfare, as lower-cost imports (which are subject to tariffs from third countries) are replaced by higher-cost imports, which are tariff-free, partner imports. The issue of 3<sup>rd</sup> party raises here when EU forms FTAs with third countries in the absence of Turkey in its decision chamber. Most Turkish economists believe that this part of the Customs Union works against Turkey. Hence there is a growing trade deficit, which encourages the Euro skepticisms and the objections to the Customs Union deal rising in Turkey. Statistics also appeared to confirm their argument. It is true that since 1996, when the CU started, the deficit is increasing dramatically. They argued further that 'Perhaps not surprisingly, the customs union has proved to be extremely harmful to Turkey's balance of trade. It was after all bound to be the net loser, given that it was mostly Turkey which undertook the additional duties envisaged envisioned by the customs union'.

**Figure 1: Trade between Turkey and EU after CU, Billion €\*.**



Source: Under secretariat of the Prime ministry for foreign trade of Turkey. \* \$ / € fixed parity is taken as 1.35

Observing the post CU trade between Turkey and the EU can provide some clarifications for the trade gain issue. Although the trade volume has grown, export growth has been much lower than the import growth. Figure 1 shows the foreign trade between Turkey and the EU starting just before the CU union agreement, until 2009.

The effects of CU are not limited to static short term impacts, the dynamic and longer run impacts are more important, Özdemir and Bayar (2009). This situation can also be confirmed in Figure 2; Turkish trade volume dramatically increased right after candidate status was declared in 2005 not right after the CU agreement in 1995.

Due to the third party agreements, the issue of *the effects of CU* boils down to the results of empirical studies. As, Ülgen, S. and Zahariadis, Y. (2004) debated, the data available for the EU-Turkish case generally suggest that there has been considerable trade creation, but little trade diversion. As shown below, the strong increase in bilateral trade relations has not been at the expense of trade with the rest

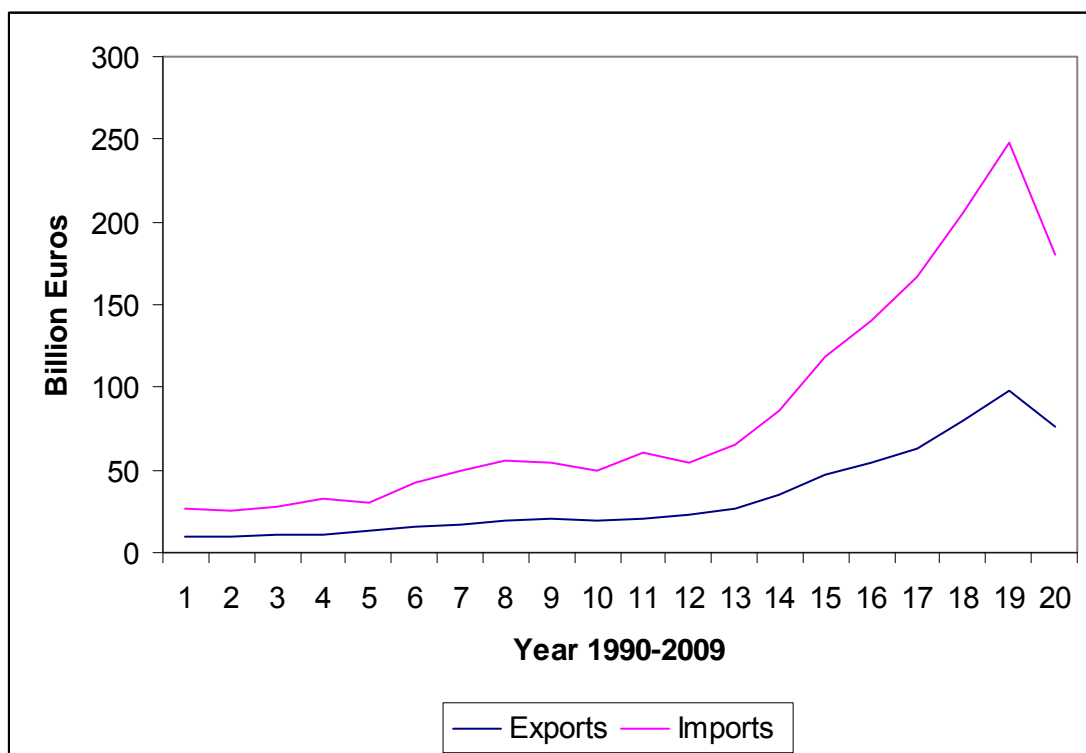


of the world since the EU's share of Turkish exports has remained roughly constant. Stronger bilateral trade has thus been accompanied by stronger trade growth overall (for Turkey). This combination translates into important welfare gains for Turkey.

In general, all the empirical studies agree on the stronger trade creation effect on industrial products. However, Turkish agricultural sectors have suffered a trade diversion effect.

Karakaya and Ozgen (2002) examine the static effect of trade creation and trade diversion by using the Revealed Comparative Advantage (RCA) index. Based on the RCA index, export structures differ significantly between Turkey and the EU. Their results show that there is an intra-regional trade creation effect in the case of commodity-groups such as agriculture, food, beverages and tobacco, textiles, paper products, chemicals, non-metals, basic metals and metal manufacture.

**Figure 2: Total Foreign Trade, Turkey 1990-2009, (billion Euros).**



Source: Turk Stat. \* \$ / € fixed parity is taken as 1.35

Adam and Moutos (2005) argued that the main beneficiaries from the EU-Turkey CU (i.e., mainly -but not exclusively- the owners of firms in the North of the EU) have already reaped most of the benefits due to the preferential access to the Turkish market that the CU has afforded their products. Their econometric results indicate that, in contrast to the "Northern" group's exports to other EU15 countries, the Southern country's exports to the other EU15 countries have declined as a result of the EU-Turkey CU. Moreover, the extra penetration of the Turkish market by EU countries has not been more favorable to the Southern group.

Annex 1.6 and 7 depicts the sectoral trade flows between the EU and Turkey. Overall the trade volume increased but the sectoral share of trade changed after CU agreements between Turkey and EU. The EU



imports more Automobiles from Turkey now than a decade ago but the share of agro products and textile and clothing decreased. According to the Turkish Foreign trade office resources:

“After the Customs Union, Turkey’s share in imports of the EC from third countries increased substantially in such sectors as automobile industry, electrical machinery and equipment, iron and steel. In that respect, during the period 1995-2008, Turkey’s share in imports of EC from third countries increased 964 % in the sectors of automobile industry, electrical machinery and equipment, while a 156 % increase was experienced in the share of iron and steel imports. After the Customs Union, share of both intermediate goods and investment goods in total imports from the EC declined, while the share of consumer goods increased significantly. Yet, imports of intermediate goods from third countries increased at a higher rate than the imports of those goods from the EC. During the 1995-2008 period, imports of intermediate goods from the EC increased by 360 %, while increase in imports of intermediate goods from third countries was 505 %. The decrease in the protection rates previously applied to third countries with Turkey’s alignment to the EC Common Customs Tariff and the exemption from customs tariffs granted in the scope of inward processing regime to support exporting manufacturers had an influence over the emergence of such a development”.

The EU has a large number of regional trade agreements and encourages Turkey to do the same. Box 1 below shows these countries for both Turkey and EU.

### **Box 1: Trade agreements, EU and Turkey.**

#### **Free Trade Agreement countries of Turkey;**

In addition to the Custom Union with the EU, Turkey has signed Free Trade Agreements with EFTA (1992), Israel(1997), Macedonia (2000), Croatia(2003), Bosnia-Herzegovina(2003), Tunisia(2005), Palestine(2005), Morocco(2006), Syria(2007), Egypt(2007), Georgia(2008) and Albania(2008), FTA also signed between Montenegro, Serbia, Chile and Jordan awaiting approval procedures.

#### **Regional Trade Agreement Countries of the EU 27 (under GATT Article XXIV);**

Andorra (CU), Turkey (CU), San Marino (CU), Faroe Islands (FTA), Norway(FTA), Iceland (FTA), Switzerland (FTA), FYRM (SAA), Croatia (SAA), Albania (SAA), Montenegro (SAA), Bosnia and Herzegovina (SAA), Serbia, (IA), Algeria (AA), Egypt (AA), Israel (AA), Jordan (AA), Lebanon (IA), Morocco (AA), Palestinian Authority (AA), Syria ( CA), Tunisia (AA), OCT/PTOM II (AA), Chile (AA), Mexico (EPA, CA), South Africa (TDA, CA), CARIFORM States (EPA), Ivory Coast (IEP), Cameroon (IEP). Agreements notified under GATS Article V : Iceland (EEA), Liechtenstein (EEA), Norway (EEA), Chile (AA), Mexico (EPA, PCA), CARRIFORUM States (EPA), FYRM (SAA), Croatia (SAA), Albania (SAA), EPAs under preparation: EAC Countries (IEPA), ESA Countries (IEPA), Pacific Countries (IEPA), SADC Countries (IEPA), West Afrika-Ghana (IEPA)

Source: [http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc\\_111588.pdf](http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_111588.pdf)

#### **Initiales:**

SAA: Stabilization and Association Agreement,

IA: Interim Agreement,

AA: Association Agreement,

CA : Co-operation Agreement,

EPA: Economic Partnership Agreement,

TDA: Trade and development Agreement,

IEP: Interim Economic Partnership Agreement,  
 EEA: European Economic Area,  
 PCA: Political Coordination Agreement)

As a result of these trade agreements, the types and quantities of goods traded changes. For better analytical view, comparative advantage theory needs to be revisited. Conventional trade theory argues that foreign trade happens mainly because countries have comparative advantages in the production of particular goods or services. These comparative advantages are not directly observable. However, one can use data on actual trade patterns to calculate measures of so-called revealed comparative advantages (RCA). RCAs indicate sectors and markets where exports originating in a given country are more (or less) competitive in relation to the other trading partners present on a given destination market. Utkulu and Seymen (2004) calculated the RCA of Turkey before and after CU (1990-2003). According to their study certain goods are losing their comparative advantage in Turkey vis-à-vis EU. Part of their results is depicted in Box 2, which shows the sectors with RCA and with Revealed Comparative Disadvantage (RCD). The numbers indicate the strength of comparative advantage or disadvantage. The higher the number the higher is the RCA or the RCD.

Their RCA measures Turkey's exports of a commodity relative to its total exports and to the corresponding exports of the EU. In their study, the indices used are hybrids, in that the set of countries (n) is restricted to the EU whereas the set of commodities (t) refers to all trade. When looking at the more disaggregated level of trade, it is apparent that Turkey already competes in the EU market in textile, clothing, apparel, footwear and leather goods. The export table of Turkey for sectoral break down confirms these. The import sectoral breakdown of Turkey from EU confirms that EU mainly exports to Turkey; the industrial products, Iron, steel, Machinery and electronics.

**Box 2: Revealed Comparative Advantages, Turkey. Source: Utkulu and Seymen (2004)**

***i) Sectors which have revealed comparative advantages (RCA)***

- vegetables and fruit (05)
- sugar, sugar preparations, honey (06)
- tobacco (12)
- oil seeds and oleaginous fruits (22)
- rubber manufactures (62)
- textile yarn, fabrics and related products (65)
- clothing and clothing accessories (84)

***ii) Sectors that have revealed comparative disadvantages (RCD)***

- feeding stuff for animals (08)
- hides and skins, raw (21)
- crude rubber (23)
- cork and wood (24)
- pulp and waste paper (25)
- coal, coke and briquettes (32)

- organic chemicals (51)
- tanning and colouring materials (53)
- medicinal and pharmaceutical products (54)
- essential oils, perfume mat., cosmetics (55)
- fertilizers (56)
- plastic in primary forms (57)
- plastic in non-primary forms (58)
- leather manufactures, dressed fur, skins (61)
- paper, paper board and articles thereof (64)
- manufactures of metals (69)
- power generating machinery and equipment (71)
- machinery specialised for particular ind. (72)
- metalworking machinery (73)
- general industry machinery and equipment (74)
- office machines and computers (75)
- telecommunication, sound, TV, video (76)
- electrical Machinery (77)
- road vehicles (78)
- other transport equipment (79)
- professional, scientific and controlling instruments and apparatus, n.e.s. (87)
- photographic apparatus, optical goods, clocks (88)
- miscellaneous manufactured articles (89)

Although the trade creation is bigger than the trade diversion for the EU-Turkey CU agreement, traded goods and the RCA analysis show that there has to be some form of greater trade creation. However, the third party agreements and more specifically common external tariffs could be the sources of trade diversion in this CU. As a policy suggestion, especially for third party agreements of the EU, Turkey has to be in the decision chamber.

### **3 TURKEY AND THE WTO, INCLUDING A BRIEF ANALYSIS OF THE LATEST TRADE POLICY REVIEW.**

In general, if one observes Turkey as a global trader, Turkey has a customs union agreement (mainly on non-agricultural products) with the EC, a free-trade agreement with EFTA (also on non-agricultural goods), and to date Turkey concluded the agreements of 26 FTA agreements. While negotiations continue with other countries, Turkey is also part of the Euro-Mediterranean Partnership, aimed at establishing a free trade area in the region by 2010; the Economic Cooperation Organization (ECO); and the Black Sea Economic Cooperation (BSEC). Further more Turkey is a member of the Organization of

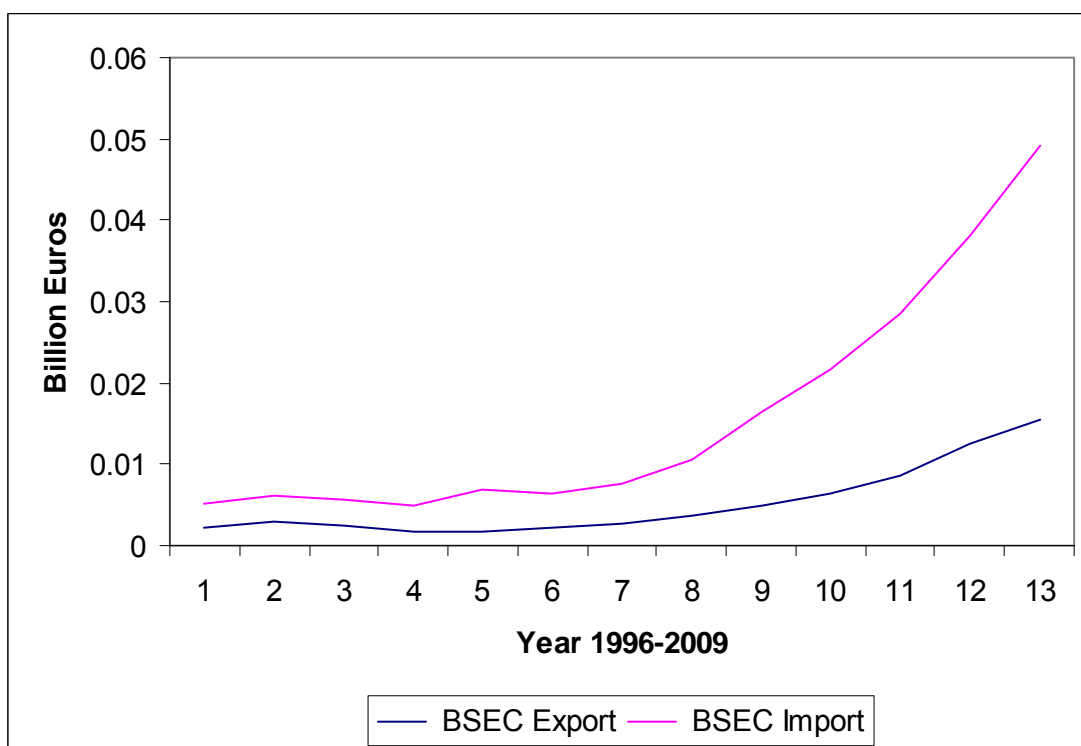
Islamic Conference (OIC) and Developing-8. Turkey has been a member of WTO since 26 March 1995. The main factors influencing the Turkish trading system are the current trade relations with the EU and WTO. According to the WTO; 'Surveillance of national trade policies is a fundamentally important activity running throughout the work of the WTO. At the centre of this work is the Trade Policy Review Mechanism (TPRM). Including Turkey, all WTO members are reviewed, the frequency of each country's review varies according to its share of world trade'. The last Trade Policy review of Turkey is published at 10 and 12 December 2007 (Fourth review). According to the report of TPR on the trade policies and practices of Turkey; 'Turkey has been implementing ambitious reforms that have resulted in high economic growth, rapid disinflation, and declining public and external debt burdens'. Of course the picture is not all that bright. Turkey still faces key structural problems, including its widening current account deficit, which could make the economy vulnerable to external shocks. (Turkey's export-import ratio was 0.79 in 2006, 0.88 in 2007, 0.85 in 2008 and 0.84 in 2009). Apart from the mostly in favor of Turkish free trade implementation remarks of TPR, 2007 of WTO there were a few unfavorable critiques. These were; 'Goods imported into Turkey may be subject to various charges: customs duties (customs tariffs, and the Mass Housing Fund levy); and internal taxes (excise duties also known as the Special Consumption Tax, the VAT, and the stamp duty). As a result of its participation in the customs union with the EC, Turkey has, since 1996, based its tariff on industrial products and the industrial components of processed agricultural products (imported from third countries) on the EC common external tariff. Turkey's tariff comprises *ad valorem* (97.9% of total lines, down from 98.5% in 2003) and non-*ad valorem* rates (specific, mixed, compound, and variable duties), applying to 378 items at the HS twelve-digit level, up from 284 in 2003. Using the WTO definition, the average applied MFN tariff is substantially higher in agriculture (47.6%) than on non-agricultural products (5%). Some 46.3% of Turkey's tariff lines are bound. The simple average bound rate is 33.9%, and the simple average applied MFN rate 11.6% in 2007 (11.8% in 2003); the ceiling bound rates thus leaves Turkey ample margin for tariff increases. Moreover, the imposition of non-*ad valorem* tariff rates does not ensure compliance by Turkey with its WTO binding commitments made at *ad valorem* rates. In addition to applied and bound tariffs, Turkey also maintains the so-called statutory tariff. Indeed, the Government can replace rates of the applied MFN tariff by 150% of the corresponding rates of the statutory tariff, with a view to ensuring higher protection to local industries. In the case of products subject to tariff bindings, when the new rate (i.e. 150% of the statutory tariff rate) is higher than the corresponding bound tariff rate, then the latter applies. These three categories of tariff further complicate the regime and make it more unpredictable. Turkey remains an important user of anti-dumping measures. As of August 2007, it had 93 definitive anti-dumping duties in force (compared with 27 at the end of 2002). Turkey has increasingly made use of safeguards during the last few years, imposing definitive measures on products such as motorcycles, salt, steam irons, vacuum cleaners, and footwear. Turkey has never initiated or imposed a countervailing measure.' Especially the MFN tariff for agriculture was claimed to be higher. TPR has been debated by trade ministry and among the economists in Turkey. The ministries reform package focused on four main areas: (i) withdrawing the State from direct involvement in production, processing, and marketing of crops; (ii) reducing output intervention purchases financed from the budget leading to price cuts; and phasing out price support and credit subsidies, and their replacement by a less distorting direct income support (DIS) system to farmers based on a uniform per hectare payment (about US \$90/ha), and (iv) making available one-time transition grants to farmers, switching out of crops and suffering excess supply, such as hazelnuts and tobacco, to assist them covering their transitional costs, and facilitating the transition to efficient production patterns. In fact Turkish economists are debating the agricultural issues. Structural problems of agriculture are much more serious than was documented. The least productive sector of the country also has the most illiterate part of the population. Turkish agricultural sector needs major support, not only as direct income but it also needs technical support, training schemes, and a major intervention (not free trade in this sense). Without structural

amendments to the Turkish agricultural sector, free trade on its own can cause further poverty and social problems in rural areas.

#### 4 AN ASSESSMENT OF TURKEY'S TRADE RELATIONS WITH THE BLACK SEA REGION AND THE BALKANS AND POTENTIAL TRADE DEVELOPMENTS IN THE REGION.

Turkey is the founding member of Black Sea Economic Cooperation (BSEC) and formed FTA agreements with the Balkan countries, Macedonia (FYR), Croatia, Bosnia-Herzegovina and Albania. The BSEC was formed by eleven countries (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Ukraine and Turkey) in 25 June 1992. The latest trade statistics by country groups are presented in the tables below. The trade with BSEC and Turkey depicted on Figure 3 shows us that the deficit is increasing in favour of BSEC. Contrary to the EU trade with Turkey, despite the global crises, there s not appeared to be a recent decline in trade. It seems there is a future prospect for this cooperation.

**Figure 3: Trade between Turkey and BSEC; (Turkish Export to BSEC Countries and Turkish import from BSEC Countries).**



In most of the English-speaking world, the countries commonly included in the Balkan region are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Montenegro and Serbia. Other countries sometimes included are: Moldova, Romania, Slovenia and Turkey

Balkan countries, with initiative of Bulgaria in 1996 formed the South East European Co-operation Process (SEECP). The SEECP founded by 8 countries which are: Albania, Bosnia and Herzegovina, Bulgaria, Greece, Republic of Macedonia, Romania, Serbia (joined as Serbia and Montenegro) and Turkey. Later on three more countries joined: Croatia (2005), Moldova (2006, before that it had observer

status) and Montenegro (2007). Let us consider the Balkan countries as the SEECP countries and we observe the trade with Turkey and the SEECP. Table 3 depicts the exports, imports and the trade balance of these countries with Turkey.

**Table 3: Turkish imports, exports and the trade balance for 1990, 1996 and 2008 from Balkan (SEECP) countries. (in million Euros)**

| COUNTRY               | Import     |            |              | Exports    |            |              | Trade Balance |             |              |
|-----------------------|------------|------------|--------------|------------|------------|--------------|---------------|-------------|--------------|
|                       | 1990       | 1996       | 2008         | 1990       | 1996       | 2008         | 1990          | 1996        | 2008         |
| ALBANIA               | 1          | 7          | 27           | 4          | 40         | 226          | 3             | 33          | 199          |
| BOSNIA-HERCEGOVIN     | 0          | 2          | 18           | 0          | 17         | 424          | 0             | 15          | 406          |
| BULGARIA              | 24         | 269        | 1,363        | 8          | 116        | 1,594        | -16           | -152        | 231          |
| CROATIA               | 0          | 21         | 78           | 0          | 20         | 243          | 0             | -1          | 165          |
| GREECE                | 95         | 211        | 852          | 103        | 175        | 1,800        | 8             | -36         | 948          |
| MACEDONIA             | 0          | 23         | 22           | 0          | 55         | 219          | 0             | 32          | 197          |
| ROMANIA               | 150        | 327        | 2,628        | 62         | 233        | 2,954        | -88           | -94         | 326          |
| SERBIA                | 0          | 0          | 46           | 0          | 0          | 339          | 0             | 0           | 294          |
| MONTENEGRO            | 0          | 0          | 1            | 0          | 0          | 48           | 0             | 0           | 47           |
| SERBIA AND MONTENEGRO | 0          | 22         | 0            | 0          | 17         | 0            | 0             | -5          | 0            |
| <b>TOTAL</b>          | <b>270</b> | <b>882</b> | <b>5,036</b> | <b>177</b> | <b>673</b> | <b>7,848</b> | <b>-93</b>    | <b>-209</b> | <b>2,812</b> |

Source: Undersecretariat of prime ministry for foreign trade, Turkey

After a relative stability of the Balkan countries, trade is increasing. The largest Balkan trade partner (for export and import) countries of Turkey are Romania, Greece and Bulgaria

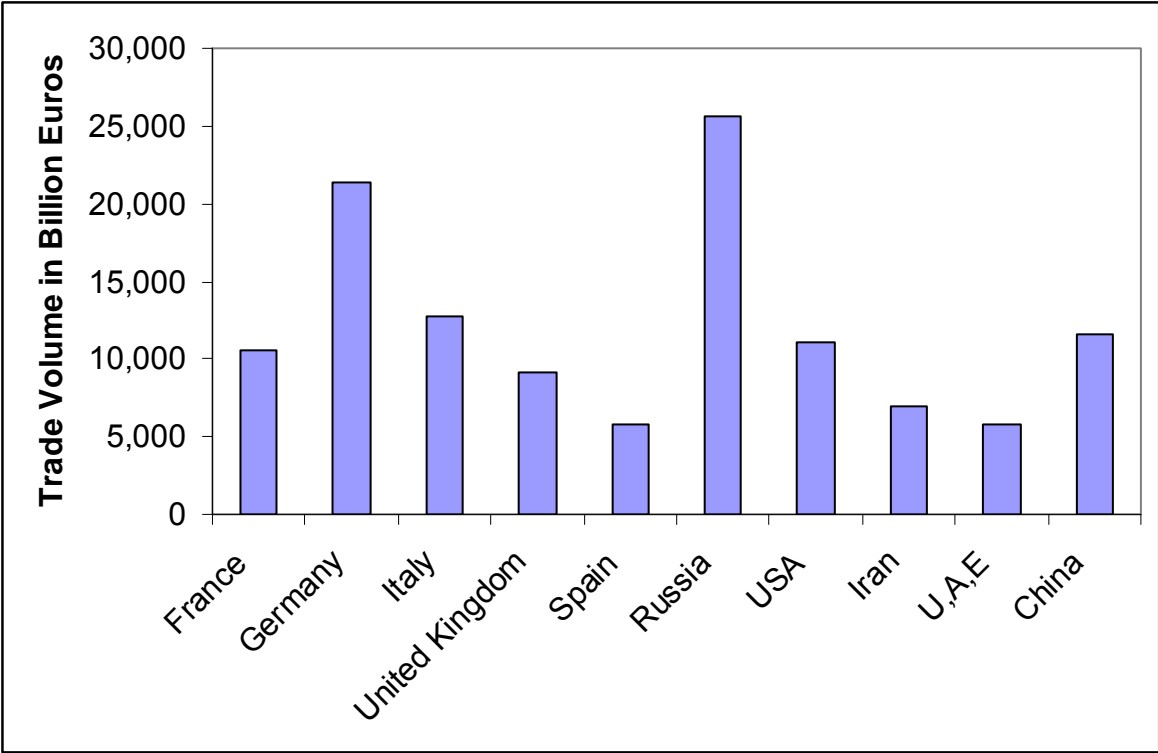
Central European Free Trade Agreement (CEFTA) is a single Free Trade Agreement (FTA) linking all the Western Balkans and Moldova. It replaces a previous network of more than 30 bilateral FTAs, thereby setting uniform trade rules across the whole South Eastern Europe. CEFTA entered into force for all Parties in November 2007. Although not a party to CEFTA, the EU supports the process, which it sees as complementing the Stabilization and Association process. Parties of CEFTA: Albania, Bosnia and Herzegovina, Croatia, Moldova, Montenegro, Serbia, UNMIK on behalf of Kosovo, the Former Yugoslav Republic of Macedonia. The raising trade potential of Balkans appeared to be promising.

## **5 AN ASSESSMENT OF TURKEY'S TRADE RELATIONS WITH THE CAUCASUS, CENTRAL ASIA AND THE EAST, POTENTIAL TRADE DEVELOPMENTS IN THE REGION.**

Historically, the biggest foreign trade partner of Turkey has been Germany but in recent years this leading position has been taken over by Russia (Figure 5). One of the economic criteria for openness for economies is the trade volume of a country, i.e. Export plus import to GDP ratio. In 2007 and 2008, the leading country position of total foreign trade volume of Turkey (Total export plus imports) changed. This indicates that the Turkish economy has already started to become more (economically) open to the east. Figure 4 shows the top ten highest trade volume countries for Turkey. Is Turkey more open to the east or west? As far as trade openness is concerned we may have some simple comparisons. The first

comparison is between the selected trade volume of five East countries; Russia, China, India, Azerbaijan and Iran and the new EU member 10 countries; Poland, Czech Republic, Slovakia, Hungary, Slovenia, South Cyprus, Malta, Estonia and Latvia. The trade volume of these two block countries are presented in the figure 6. Although the trade composition may differ, the EU 10 of the European Union clearly shows that the Turkish trade is mainly with the second alternative block. Eastern trade is gradually increasing as opposed to the EU 10 trade. Turkish cooperation with the EU is not restricted to the EU 10 trade but the figure and numbers are indicating that the Turkish economy is gradually moving toward the east and having more to do with the east 5 selected countries than the EU 10. Since the EU 10 is not representing the EU trade with Turkey, a second comparison needed here. The figure 4 displays the top ten trade partners of Turkey in 2008. According to the top ten trade volume indicators, the leading country is Russia followed by Germany, Italy, China and the USA. The trade with United Arab Emirates (U.A.E) and Iran has a higher trade volume than the EU member Spain<sup>5</sup>.

**Figure 4: Shows the top ten trade volume countries in 2008 for Turkish foreign trade.**

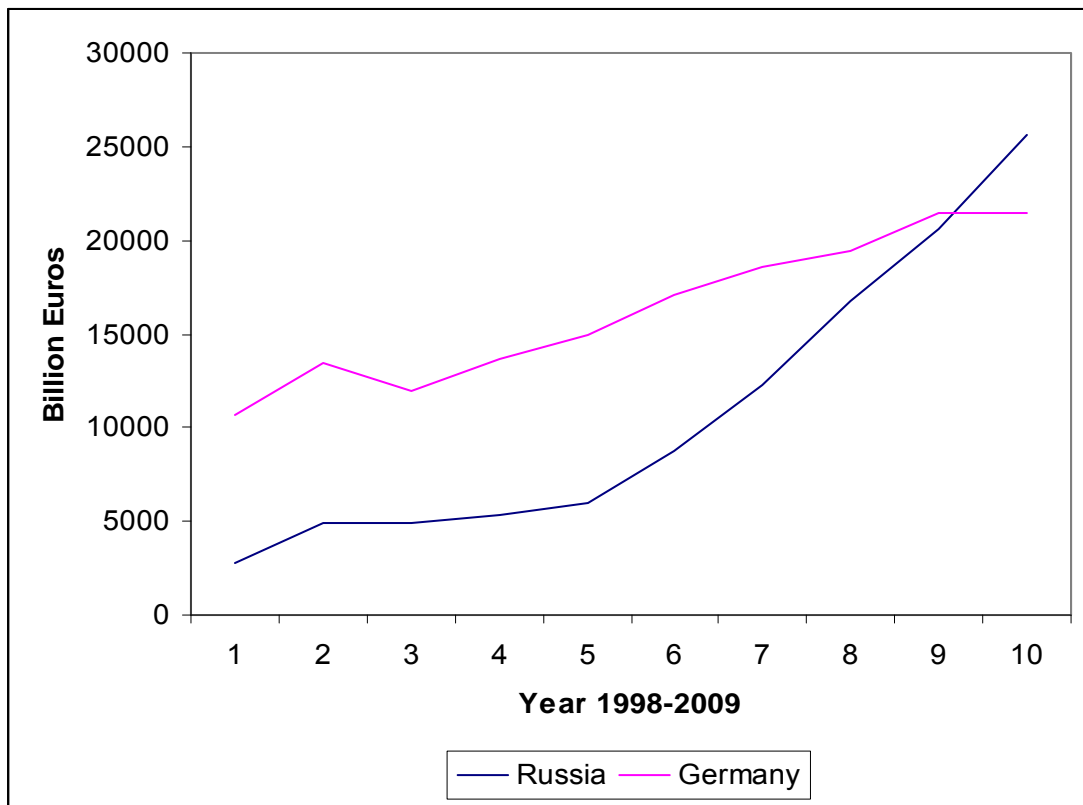


Source: Turkish Statistical Institute)

The two top trade volume countries' trend is depicted at Figure 5. It is clear that the Russian Trade leapfrogged German trade in 2007. The top trading countries of Turkey in EU are Germany, France, Italy, UK and Spain and the other non EU five top trading countries are Russia, China, United Arab Emirates, USA and Iran.

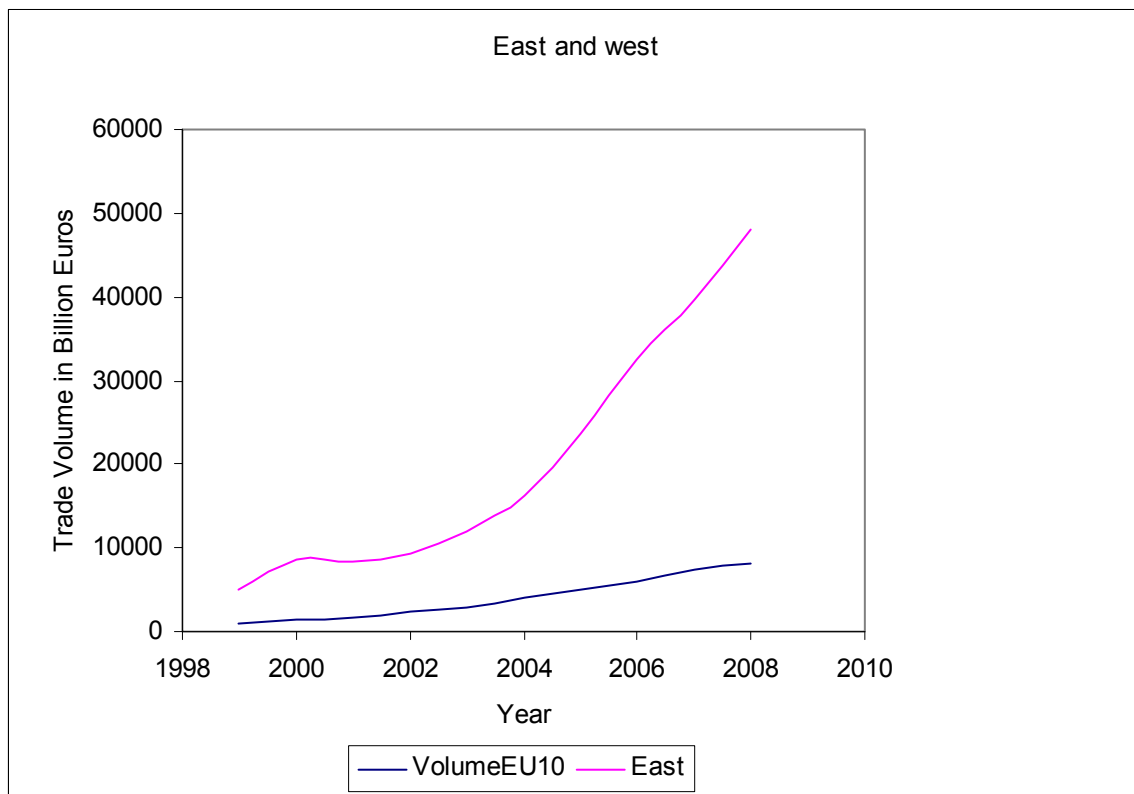
<sup>5</sup> Due to the misleading impact of economic crises, the year 2009 data is intentionally avoided.

**Figure 5: The highest two trade volume countries of Turkey**



Source: Turkish Statistical Institute

**Figure 6: Turkish trade volume comparisons between 10 New EU members and Five eastern countries (Russia, China, India, Azerbaijan and Iran).**

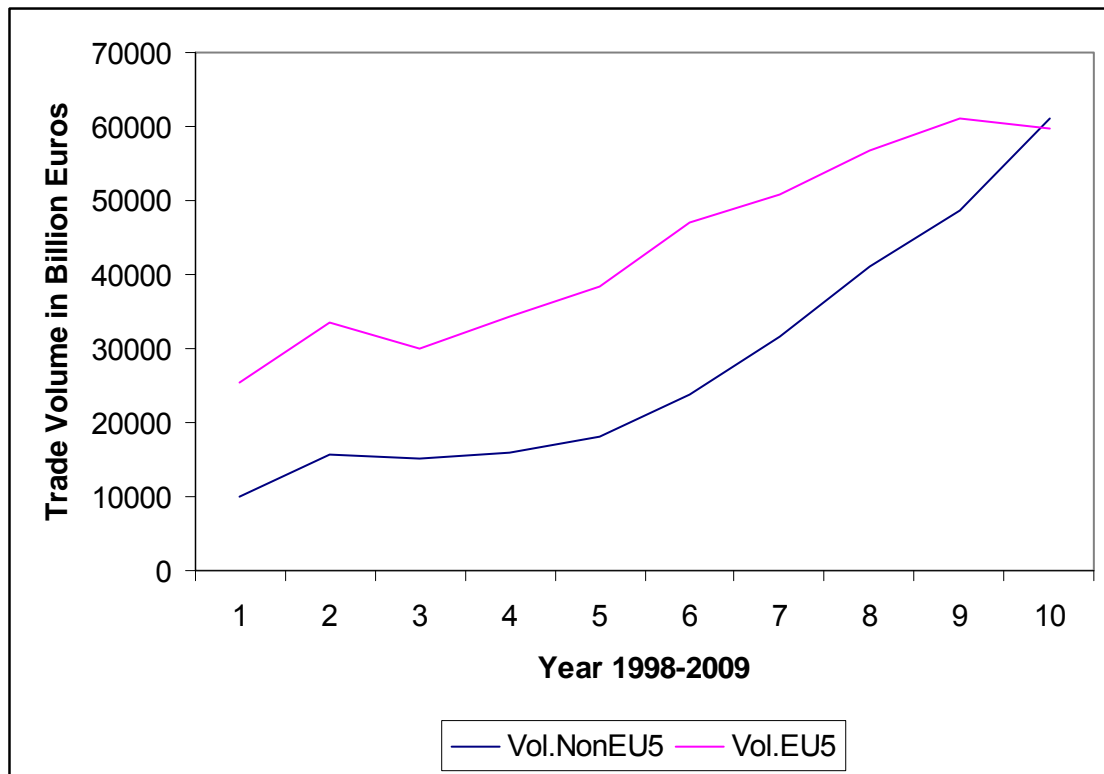




Source: Turkish Statistical Institute)

It may be possible to form EU top five and non-EU top five trading countries for Turkey. Figure 7 depicts these two separate blocks trends for the past ten years.

**Figure 7: Turkish trade volume comparisons topEU5 and the top non EU5 countries.**



Source: Turkish Statistical Institute)

Here again the Non-EU five has taken over the lead. While the non EU trade volume trend of Turkey is gradually rising, the EU trade volume is declining.

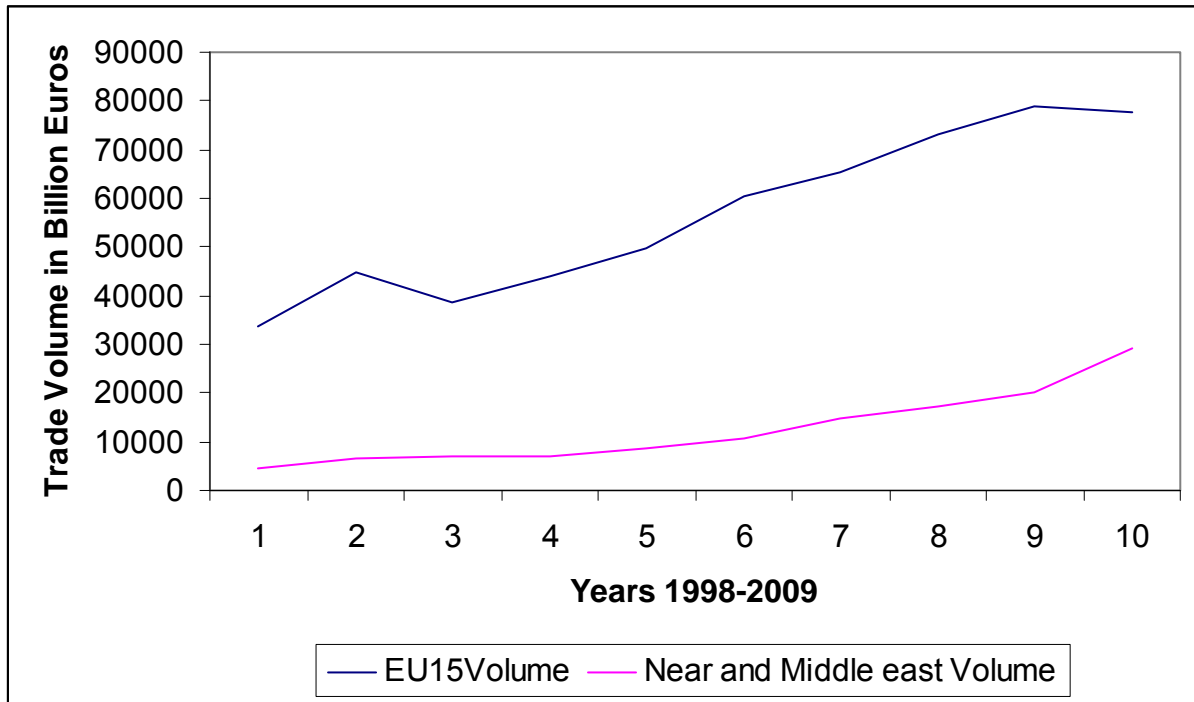
Trade between Turkey and middle eastern countries is also rising but still in very moderate levels. Historically, trade with these countries was neglected and Turkey had its face to the west not east. The trade with U.A.E., Iran and Syria has increased. General trend of the trade volume of EU 15 and Near and Middle Eastern Countries total trade volumes are presented in Figure 8. The Near and Middle Eastern Countries are; United Arab Emirates, Saudi Arabia, Yemen, Oman, Qatar, Bahrain, Kuwait, Jordan, Palestine, Israel, Iran, Iraq, Syria, Lebanon, Azerbaijan, Armenia and Georgia. The slight down turn in the EU 15 trade seems to be replaced by these countries in the recent years, but the trade volume of the 'Near and Middle Eastern Countries' are not as high as expected.

Perhaps, another comparison can be made by looking into the trade volume between the EU 27 and Organization of The Islamic Conference (OIC) countries for Turkey.

The OIC countries consist of 57 member states, from the Middle East , Africa, Central Asia, Caucasus, Balkans, Southeast Asia, South Asia and South America. The current member countries are: United Arab Emirates, Azerbaijan, Iran, Egypt, Malaysia, Syria, Qatar, Afghanistan, Turkey, Algeria, Chad, Guinea, Indonesia, Jordan, Kuwait, Lebanon, Libya, Mali, Mauritania, Morocco, Niger, Pakistan, Palestine, Saudi

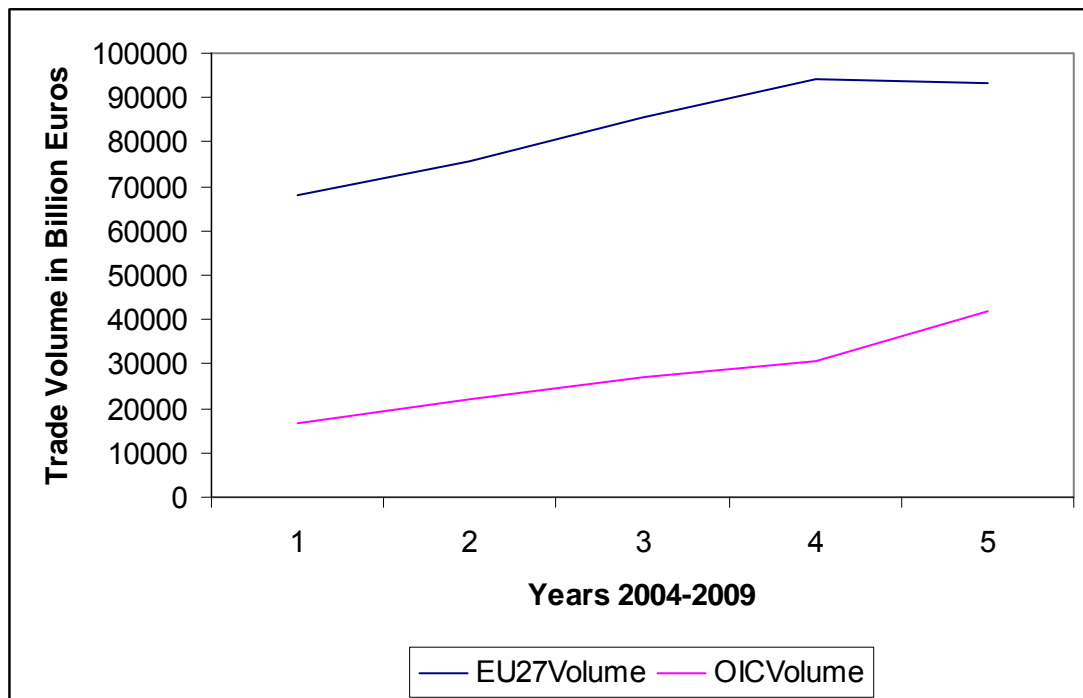
Arabia, Senegal, Sudan, Somalia, Tunisia, Yemen, Bahrain, Oman, Sierra Leone, Bangladesh, Gabon, Gambia,

**Figure 8: Turkish trade volume comparisons between the EU 5 countries and the total of the near and middle east countries.**



Source: Turkish Statistical Institute

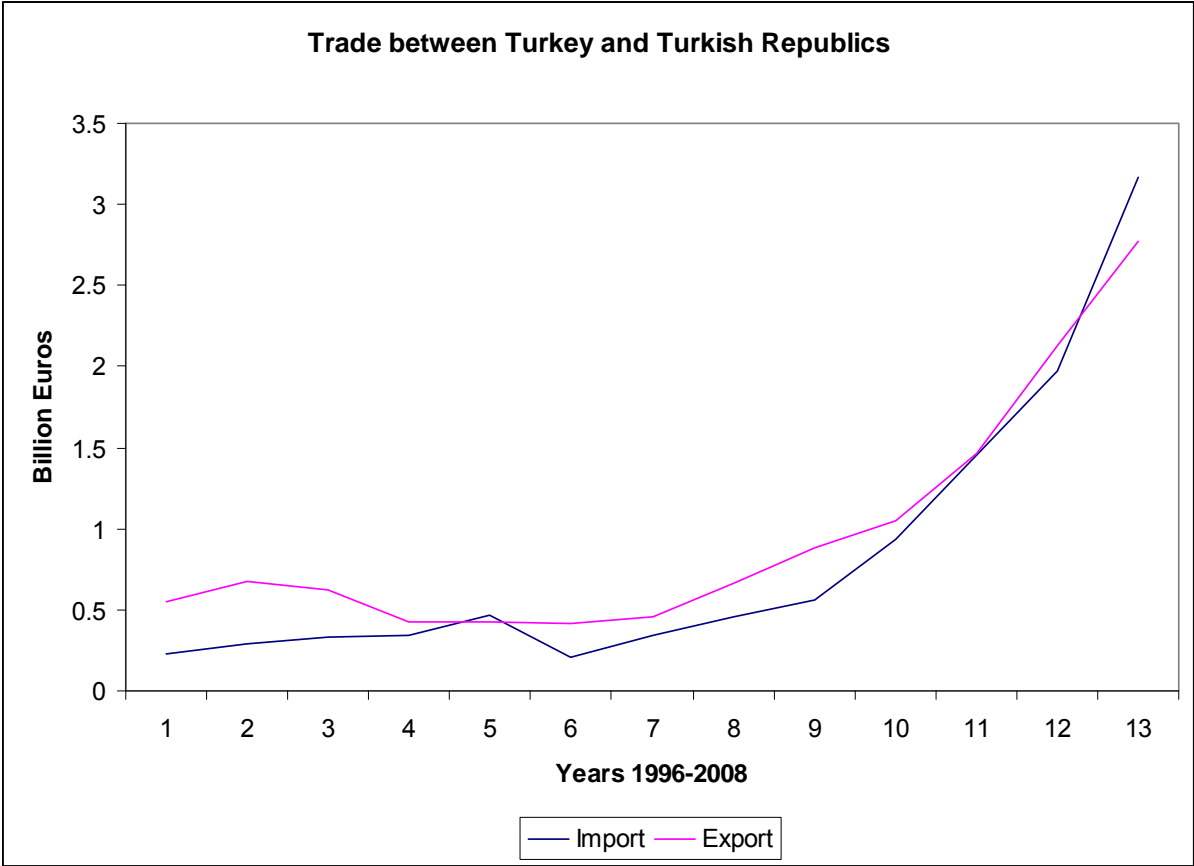
**Figure 9: Turkish trade volume comparisons between EU27 and the OIC countries**



Source: Turkish Statistical Institute)

Guinea, Uganda, Burkina Faso, Cameroon, Comoros, Maldives, Djibouti, Benin, Brunei, Nigeria, Albania, Kyrgyzstan, Tajikistan, Turkmenistan, Mozambique, Kazakhstan, Uzbekistan, Suriname, Togo, Guyana, Cote d’Ivoire. The OIC countries are geographically so diverse and spread all around the world. Economic openness to these 57 countries is not that practical and easy for Turkey but the near and middle east countries classification are more viable. As we may predict the trade openness with the OIC is not that great compared to EU 27 trade of Turkey in Figure 9. The Figure indicates that while the trade volume of OIC countries are raising, the EU 27 trade volume shows a slight downward trend in recent years

**Figure 10: Turkish trade between the Turkish Republics**



Turkey has a special trade link with another group of countries called Turkish republics in Caucases. They are, Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, Turkey and Uzbekistan. Trade volume of Turkey is especially raising countries are Kazakhstan, Turkmenistan and Azarbaijan in Turkish Republics. The trade trend of Turkish republics with Turkey is depicted in Figure 10 above.

## **6 AN ASSESSMENT OF TURKEY'S TRADE AND ECONOMIC RELATIONS WITH THE MEDITERRANEAN REGION.**

Euro-Mediterranean Economic Area is quite logical because 60 to 75 % of the Mediterranean countries trade is with the EU, the majority of their investment flows originate in the EU, the same goes for tourism, and many of them have substantial migration flows to the EU. It therefore makes sense to develop stronger economic ties between the two regions. All the more so that they will soon count about 700 million people jointly. The Euro med countries are; Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territories, Syria and Tunisia.

The Barcelona process<sup>6</sup> which was the starting point of the Euro-Mediterranean Partnership had three pillars; a political and security partnership, an economic and financial partnership, and a social, human and cultural partnership. It has the vision of "turning the Mediterranean basin into an area of dialogue, exchange and cooperation guaranteeing peace, stability and prosperity". The economic and financial partnership pillar is dedicated to the creation of an area with shared prosperity through the establishment of the Euro-Mediterranean Free Trade by the target date 2010. The free trade area will be established through Euro-Mediterranean Association Agreements and Free Trade Agreements between Mediterranean partners, which have deepened regional integration through the liberalization and facilitation of trade.

Association Agreements are in force between the EU and Tunisia (since 1998), Israel (2000), Morocco (2000), Jordan (2002), Egypt (2004) and on an interim basis with the Palestinian Authority (1997), Algeria (2001), and Lebanon (2002). Euro-Mediterranean trade relations will focus on bringing the Mediterranean partners' regulatory procedures closer to EU rules, to facilitate access to the EU market and remove non-tariff barriers to trade. The EU MEDA funds are allocated to the area trade projects.

### **6.1 Turkey's role in the success of the Euro med Free Trade Area**

Turkey's participation in the Euromed process is very important, partly because it's a regional power Mediterranean country (Close proximity) and it is a partner of the Barcelona Process. Turkey has also FTA agreements with Israel, Egypt, Morocco (2004), Tunisia (2004), Palestine (2004) and Syria (2004). Apart from agreements in force, there are FTA negotiations in process with Lebanon, Jordan and Algeria. Apart from Syria, all countries have an association agreement with the EU.

Euro-Mediterranean trade relations are growing and Turkey's trade with Euro med countries have a take of in recent years. Table 4 is showing the trends of each countries export and import with Turkey. Turkish export to Israel is rapidly raising and Algeria and Egypt are the following highest export countries for Turkey in Euro med. Turkey's largest import countries in Euro med are again Israel, Algeria and Egypt. The trade appeared to be also rising with Syria in recent years. As it can be seen from table 4, the share of the Mediterranean countries constitutes 3-4% of Turkey's total imports. Main import products from the region are petroleum and natural gas. The share of industrial products is far from showing its real potential. These countries can compete with EU and CEEC countries and increase their share in the Turkish market only through establishing preferential agreements.

Turkish exports also show a similar trend as the imports, accounting for only 6-7% of Turkey's total exports. A share of 4-5% in the trade volume was a real sign of poor trade relations which substantially

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<sup>6</sup> The Euro-Mediterranean Conference of Ministers of Foreign Affairs, held in Barcelona on 27-28 November 1995.

contradicts with the good political relations and geographical proximity. Only in recent years has this poor trade volume begun to change.

The recent Turkish trade shares of these countries, especially for Israel, Egypt and Algeria increased further. In case of Turkey, it is the second largest market with 67 million consumers with higher per capita income compared to most Mediterranean countries. In this respect an FTA with Turkey is definitely a win-win situation with mutual benefits.

The 1995 Barcelona conference which was the starting date for the Euro Mediterranean partnership had three dimensions; they were the economic and financial, political and security and social and cultural partnerships.

**Table 4: Turkish trade with the Euro med countries ( in million euros)**

| COUNTRY           | Export     |              |              | Import     |              |              | Trade Balance |            |              |
|-------------------|------------|--------------|--------------|------------|--------------|--------------|---------------|------------|--------------|
|                   | 1990       | 1996         | 2008         | 1990       | 1996         | 2008         | 1990          | 1996       | 2008         |
| ALGERIA           | 149        | 206          | 1,195        | 213        | 546          | 2,416        | -64           | -340       | -1,221       |
| EGYPT             | 119        | 234          | 1,057        | 27         | 202          | 698          | 91            | 32         | 358          |
| ISRAEL            | 34         | 189          | 1,434        | 46         | 143          | 1,073        | -12           | 46         | 361          |
| JORDAN            | 60         | 112          | 341          | 25         | 21           | 19           | 35            | 91         | 323          |
| LEBANON           | 38         | 135          | 493          | 5          | 20           | 132          | 33            | 115        | 360          |
| MOROCCO           | 18         | 39           | 709          | 72         | 61           | 267          | -54           | -22        | 442          |
| SYRIAN ARAB. REP. | 144        | 228          | 826          | 62         | 231          | 473          | 82            | -3         | 352          |
| TUNISIA           | 29         | 70           | 576          | 22         | 37           | 271          | 7             | 33         | 306          |
| <b>TOTAL</b>      | <b>591</b> | <b>1,213</b> | <b>6,631</b> | <b>473</b> | <b>1,261</b> | <b>5,350</b> | <b>119</b>    | <b>-47</b> | <b>1,281</b> |

Source ; Undersecretariat for Foreign Trade, General Directorate of EU Affairs, Turkey., \$ / € parity is fixed and taken as 1.35

The starting point for the Euromed Economic area was the fact that Mediterranean and European countries can only become more prosperous if they share the prosperity and stable environment. Implementations of these economic goals have two important areas: increasing the free trade (possibly creating a single market), and a significant technical and financial support from the EU under economic transition programmes. Turkey has very important roles in these three dimensions. It is one of the most economically integrated country to the EU and also have FTA between the most of the Euro Med countries. The trade channels have already been established to help to create a single Mediterranean Market in the Future. Politically, Turkey can set a good example as a democratic regional country and socially and culturally have more ties than any other European country could ever have.

## 6.2 Turkey's use of the Pan-Mediterranean rules of Origins

Turkey has a deep and longstanding relationship with the European Union, including membership of the Customs Union. Despite the slow pace and uncertain outcome of Turkey's EU accession process, the country plays a critical role in the European Union's Euro Mediterranean initiative that aims to stimulate

commercial/ economic ties between Europe and the Mediterranean countries. One of the draw backs of the FTA agreements such as the Euro-Mediterranean Agreements is more likely that they will result in a center and periphery system. This system creates incentives for firms to locate in the center, which is the EU in this case, as this gives them barrier-free access to the entire periphery, which means that only the EU can benefit from the bilateral agreements. Having different, contradicting and overlapping sets of Rules of Origin will contribute more to the decrease of the benefits that the periphery might enjoy. To avoid the negative effects of this system, the Pan-Mediterranean Rules of Origin must be established so that the full cumulating can be reached gradually.

Pan-Euro-Med cumulating of origin was agreed at the Euro Med Palermo conference in 2003, derived from the Pan-European Origin Rules. Turkey's bilateral free trade agreements and the CU with EU was already inline with that system.

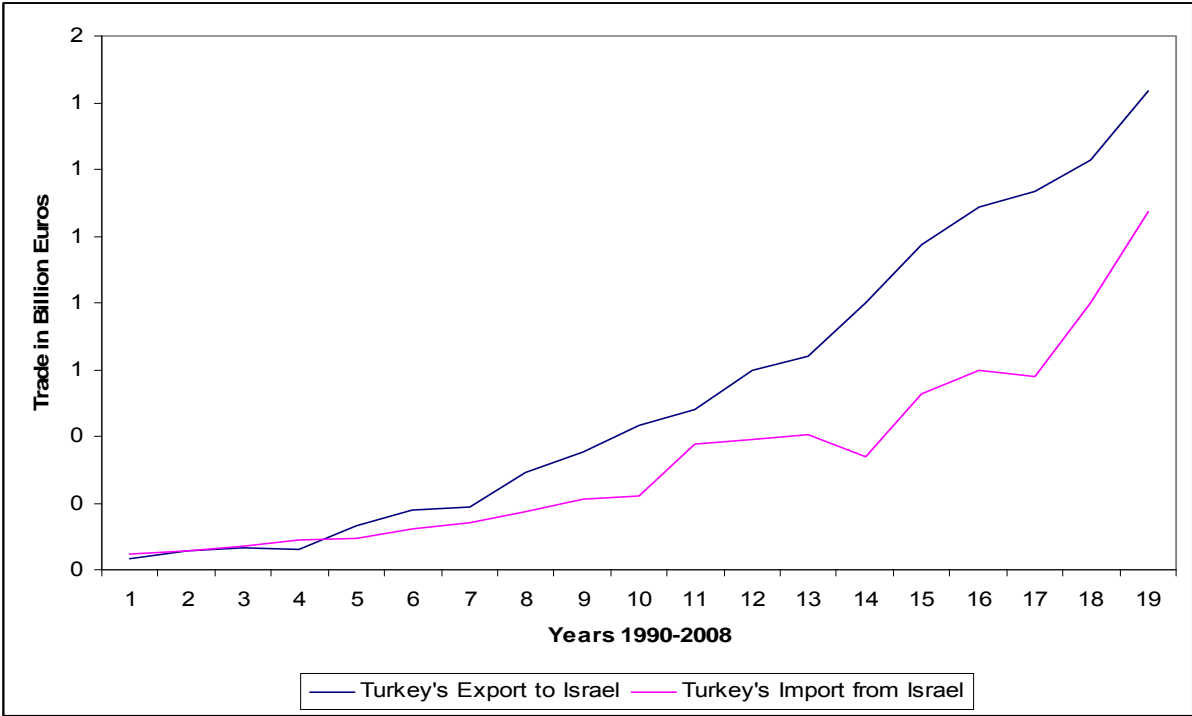
A system of Pan-Euro-Med cumulating of origin is an extension of a previous system of Pan-European cumulating. Pan-Euro-Mediterranean cumulation is a diagonal cumulation system in operation between Turkey, the European Community, EFTA States and a number of Mediterranean countries. The diagonal cumulation means that the input originating from any of these countries is allowed to be used for production of the ultimate product, where more than two countries are party to a single Agreement or several countries are incorporated to each other with similar agreements -as in Pan-European system. It means that products which have obtained originating status in one of the 42 countries may be added to products originating in any other one of the 42 without losing their originating status within the Pan-Euro-Med zone. It operates between the EC and the Member States of the European Free Trade Association countries and Turkey and countries which signed the Barcelona Declaration (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and Palestine and Faroe Islands). Turkey's Free Trade Agreements with Tunisia, Morocco, Palestine Authority and Syria enable cumulation within the region and improve market access for economic operators. This new system is expected to increase incentives for investment and strengthen regional integration between Pan-Euro-Med partners, in particular Turkey.

This system helps regional development further because it enforces the regional cumulation as opposed to the cumulation in EU.

### **6.3 Turkey's particular trade relations with Israel**

Turkey and Israel had a FTA agreement in 14 of March 1996 with the objectives; to enhance co-operation, to promote, through the expansion of reciprocal trade in goods and services, the harmonious development of the economic relations, to provide fair conditions of competition for trade, to contribute in this way, by removal of barriers to trade, to the harmonious development and expansion of world trade.

**Figure 11: Israel and Turkey’s trade between 1990 and 2008. (in Billion Euro)**



Source: Turkstat

In this Agreement, the Israel Customs Tariff shall be applied to the classification of goods for imports to Israel. The Turkish Customs Tariff shall be applied to the classification of goods for imports into Turkey. According to this agreement, there is a list of duty reduced products, which are applied to be the same as the MFN duties. Any tariff reduction is applied on an erga omnes basis, in particular reductions resulting from the tariff agreement concluded as a result of the GATT Uruguay Round and Turkey-EC Customs Union, such reduced duties shall replace the basic duties.

After this free trade agreement between the two countries, Turkish import from Israel and in particular the export took off. The trade is gradually increasing and the Turkey’s trade surplus is noticeable. There has been a considerable trade development between the two countries.

In fact the intense defense cooperation between Turkey and Israel has been another driving force behind this increase in trade. A quite significant proportion of Turkish import from Israel consist of arms purchases.

**Table 5: Arms Export from Turkey**

|              | ARMS Export From Turkey |             |             |             |             |             | Total        |
|--------------|-------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
|              | 2003                    | 2004        | 2005        | 2006        | 2007        | 2008        |              |
| Afghanistan  |                         |             |             |             | 3.7         |             | 3.7          |
| Albania      |                         |             | 25.9        |             |             |             | 25.9         |
| Bahrain      |                         |             | 1.5         |             |             |             | 1.5          |
| Georgia      |                         |             |             |             | 3.0         | 4.4         | 7.4          |
| Iraq         |                         |             | 1.5         | 40.7        |             |             | 42.2         |
| Malaysia     | 28.1                    | 7.4         |             |             |             |             | 35.6         |
| Nigeria      |                         |             |             |             | 4.4         | 4.4         | 8.1          |
| Pakistan     |                         |             |             |             | 13.3        | 13.3        | 25.9         |
| Philippines  |                         |             |             |             |             |             |              |
| Saudi Arabia |                         | 7.4         |             |             | 1.5         |             | 8.9          |
| UAE          |                         |             | 0.7         | 8.1         | 8.1         |             | 17.0         |
|              |                         |             |             |             |             |             |              |
| <b>Total</b> | <b>28.1</b>             | <b>14.8</b> | <b>30.4</b> | <b>48.9</b> | <b>33.3</b> | <b>21.5</b> | <b>177.0</b> |

Source: SIPRI Arms Transfers Database, Figures are SIPRI Trend Indicator Values (TIVs) expressed in million Euros at constant (1990) prices. (\$ / € parity is fixed and taken as 1.35)

**Table 6: Arms import into Turkey**

|               | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | Total         |
|---------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| China         |              |              | 5.2          | 5.2          | 5.185        |              | 15.6          |
| France        | 10.4         |              |              |              | 5.9          |              | 15.6          |
| Germany (FRG) |              | 15.6         | 419.3        | 132.6        | 434.1        | 288.9        | 1290.4        |
| Israel        | 35.6         | 7.4          | 2.2          | 4.4          | 120.7        | 147.4        | 317.8         |
| Italy         | 9.6          |              | 25.9         | 18.5         | 7.4          | 19.3         | 80.7          |
| Netherlands   |              |              | 20.0         |              | 20.0         | 9.6          | 48.9          |
| South Korea   |              | 21.5         | 32.6         | 32.6         | 32.6         | 32.6         | 151.1         |
| Spain         | 38.5         |              |              |              |              |              | 38.5          |
| UK            | 11.1         | 11.1         | 11.1         | 11.1         | 11.1         | 11.1         | 66.7          |
| USA           | 220.0        | 81.5         | 223.7        |              |              | 27.4         | 551.9         |
|               |              |              |              |              |              |              |               |
| <b>Total</b>  | <b>324.4</b> | <b>136.3</b> | <b>739.3</b> | <b>204.4</b> | <b>635.6</b> | <b>535.6</b> | <b>2576.3</b> |

Source: SIPRI Arms Transfers Database, Figures are SIPRI Trend Indicator Values (TIVs) expressed in million Euros at constant (1990) prices. (\$ / € parity is taken as 1.35)

Turkey also trade defense instruments, which are not frequently discussed. The data on the arms trade is often not available in detail. One of the most reliable data sources for arms trade is the Stockholm International Peace Research Institute (SIPRI) data base. According to the SIPRI, while Turkey's main arms purchasing countries are the EU countries, the main arms exporting countries are the non-EU countries. Turkey's main arms export and import countries with value of trade are shown in Table 5 and Table 6. The largest three arms purchasing countries for Turkey are Germany, USA and Israel.

#### **6.4 Embargos on Cypriot transport and trade and the possible effect this might have on the EU and regional economy.**

Trade blockage on Cypriot trade is indeed a serious problem. Due to the divided nature of the island (i.e. Republic of Cyprus (RoC)-South Cyprus- is not recognized by Turkey but she is a member of the EU and



the Turkish Republic of Northern Cyprus (TRNC) is not recognized by the rest of the world-excluding Turkey). Turkey blocks trade with the RoC but not the world trade. The rest of the world blocks trade with TRNC but Turkey is open to trade with her. According to the RoC minister of foreign affairs: 'The economic consequences of the Turkish restrictions imposed on Cyprus and foreign flagged vessels were assessed in 2005. Based on 2004 data, the actual direct annual costs for the economy of the RoC are estimated to be 99.5 million EUROS, representing around 1.2% of the GDP. Revocation of the said measures will lead to positive effects for the EU and the regional economy.' The details of this cost analysis, such as how they measured this loss, are unfortunately not provided by the ministerial sources.

The economic isolations of the Turkish Cypriots are much more serious than the isolation of RoC because they cannot have direct trade. The transportation problem includes the non-access to seaports and not having direct air links. According to the RoC resources the north part of Cyprus's ports are closed. The ports that are closed to the international navigation are the ports of Famagusta, Karavostasi and Kyrenia. Access to ports of the territory she no longer controls will have to be regarded as a matter of regulation by the new authorities exercising the de facto control over the territory. In fact, the RoC cannot close seaports it does not control. When it comes to direct air links, usually states conclude bilateral or multilateral conventions with the purpose of regulating regular air services in line with the Chicago Convention. Furthermore, states parties to the Chicago Convention have the right to designate the airports in their territory that can be used for international flights. This allows the state to limit the number of airports where it needs to have facilities for the purpose of customs and other examinations. The TRNC is not a party to the Chicago Convention. The Chicago Convention is thus not applicable to Northern Cyprus. The Northern Cypriot ports are legal under international law, as it has also been affirmed by the EU.

A partial remedy for the isolation of TRNC from the EU was addressed in two additional regulations; the Financial Aid Regulation and the Direct Trade Regulation. These regulations were proposed by the Commission as 'twin' instruments, meaning that they were to be adopted as one package as soon as possible. The Direct Trade regulation seems to be the only measure at the disposal of the EU that would be helpful in keeping its promises and would be consistent with its stated desire not to "preclude measures with a view to promoting the economic development" of the Turkish Cypriots.

Overall, solving the economic problems of the Cypriot people is very much dependent on a political solution to the Cyprus problem. Without such a remedy neither side of Cyprus's trade can flourish.

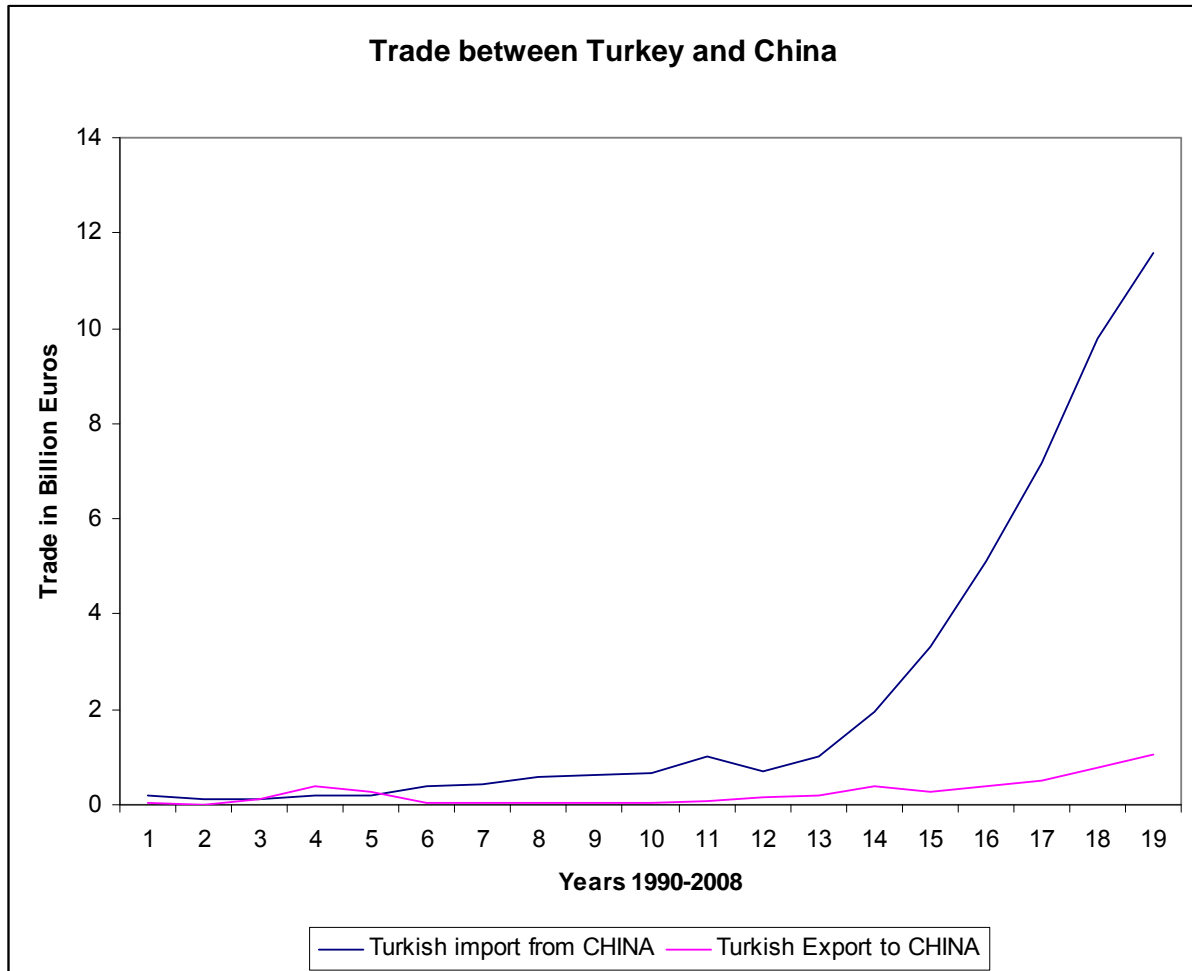
## **7 TURKEY AND CHINA: COMPETITION FOR THE SAME MARKETS AND TURKEY'S POSITION IN THIS COMPETITION.**

The major competition markets between Turkey and China are in the share of the world's textile market and regional energy reserves. The interest in the energy market competition is mainly at Caucasus. Most observers see that the Baku-Tbilisi-Ceyhan pipeline and Azerbaijan's Shah Deniz projects are favorable to Turkey's energy market targets and not to China's. Observers can see that Chinese counter steps were taken with Beijing's success in securing several bilateral agreements with Kazakhstan and Turkmenistan, including new oil and gas pipeline deals.

This is of course not the only scenario between Turkey and China. In fact these two countries have increasing trade volume which gives a large trade surplus to China while giving a deficit to Turkey (See the trade figures between the two countries in the Figure below). In 2008 the surplus favoring China amounted a nearly 16 billion dollars. With this deficit in mind, Turkish President Gul visited China in June 2009 and requested economical compensation for this deficit. Apart from the range of political deals, Turkey and China agreed on a number of economic measures, which promote an increase in

Chinese investment in Turkey, inbound tourism from China, joint ventures in other countries and more opening of the Chinese market to Turkish products. The China visit appeared to be a successful breakthrough at that time, but we will see the trade impact in the future.

**Figure 12: Turkey and China trade between 1990 and 2008**



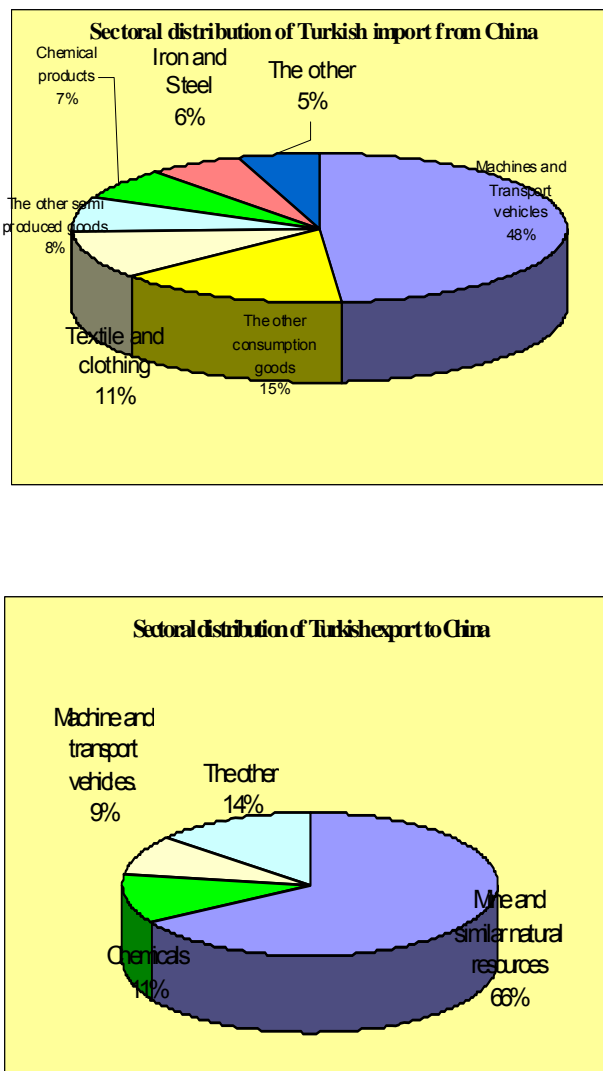
Source: Turk Stat. \* \$ / € fixed parity is taken as 1.35

Trade statistics from 2009 confirm the success of the Turkish President's Chinese visit. The recent decrease in the trade deficit is coming partially from further increases in Turkish export and slight decreases in Turkish imports from China. Turkey's competition appears to be increasing in the Chinese market.

Turkey and China have signed seven bilateral cooperation agreements covering diplomacy, tourism, energy, culture, media and trade in 2009. The Energy cooperation agreement suggests that the Chinese government will encourage Chinese energy companies in thermal power, renewable energy and nuclear power energy. The deal included the three (Turkey's telecom, foreign trade and infrastructure) framework agreements of trade financing by the Import and Export Bank of China. Above all, some Chinese high-tech companies were going to establish research centers in Turkey and develop the market in Southeast Europe, Central Asia and the Middle East together with Turkish companies.

China and Turkey also decided to deepen their cooperation in the areas of: energy and infrastructure, financing, social and cultural intercourse and the global financial crisis.

**Figure 13: Broad sectoral distribution of trade between Turkey and China, 2008**



Source: Undersecretariat of prime ministry for foreign trade, Turkey

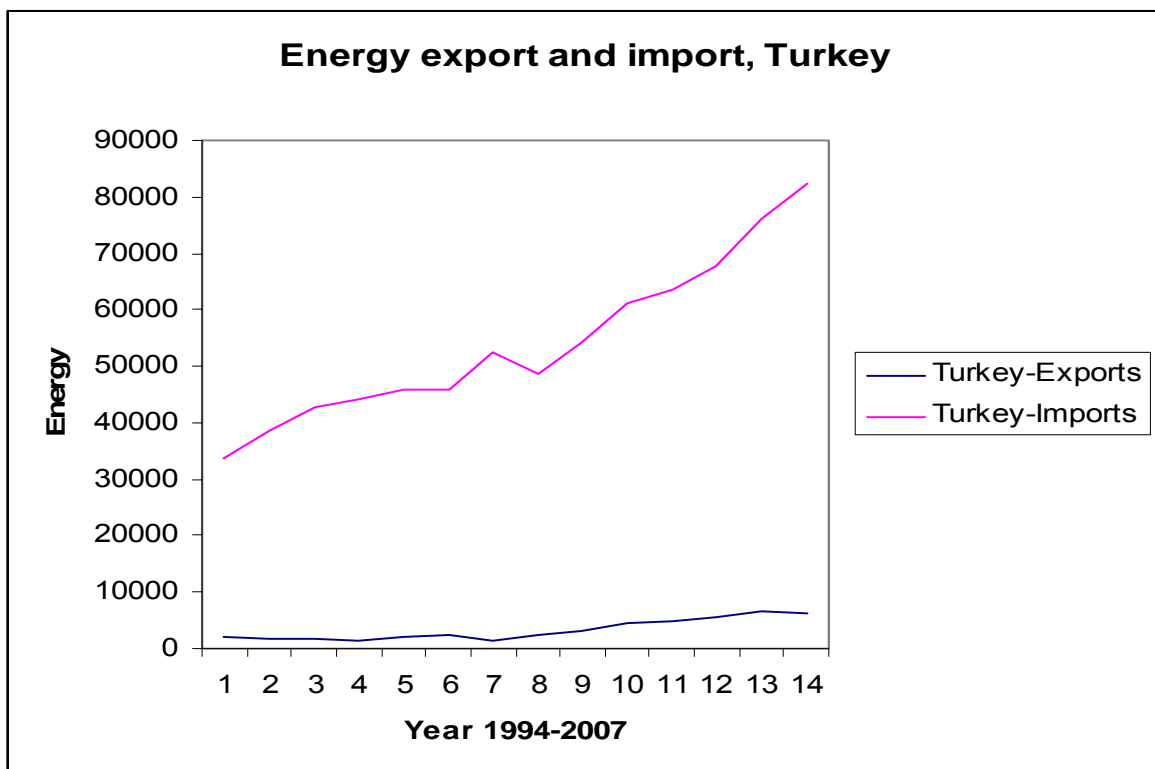
Turkey's high energy and infrastructure demand encourages the cooperation further. For financing, there are four financial organizations involved in this deal. They are: National Development Bank of China, The National Development and Investment Corporation of China, Import and Export Bank of China and Bank of China. To aid cultural cooperation, METU and Bosphorus Universities opened Confucius Colleges in Turkey. China will encourage its own citizens to see Turkey as a fabulous tourist destination and they expect to raise Tourism between the two countries. China and Turkey also agreed on global political issues, such as how to approach the world financial crisis by reforming international financial institutions to cope better with global economic problems by reshaping the international economic structure.

## 8 HORIZONTAL ISSUES:

### 8.1 Energy

The actual gap between export and import mainly stems from energy imports. The rapidly growing structure of the Turkish economy has growing energy demands. The speed of demand is much faster than domestic energy production. This would lead to an almost exponential increase in energy imports (Figure 14). In order to address the supply gap problem, the government passed an energy security law in 2007 and introduced a number of incentives to facilitate investment in the energy sector, focusing on strategies for diversifying sources of supply by fuel type. Turkey also implemented an "automatic pricing mechanism" in 2008, according to which, electricity prices are revised three times per year, based on changes in the foreign exchange rate, oil prices, and the consumer price index.

**Figure 14: Energy trade of Turkey. (Energy measured as thousand tons of oil equivalent (TOE) )**



Source: Eurostat.

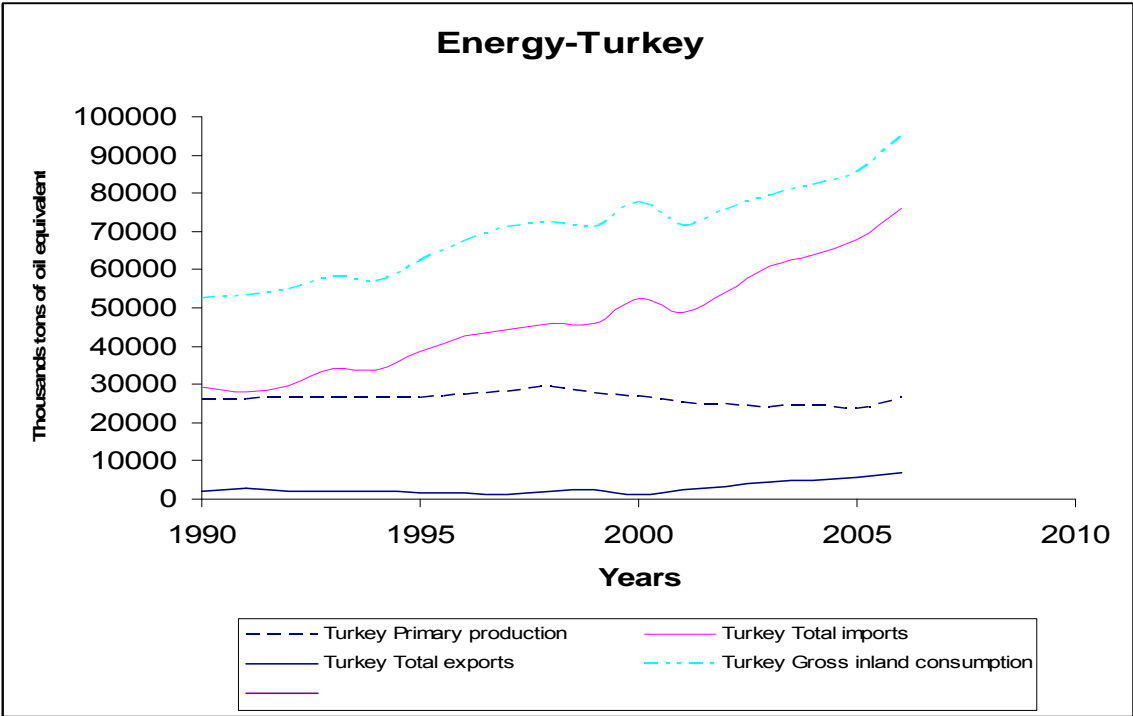
Gas prices are adjusted monthly. Turkey passed its long-awaited Nuclear Power Law in 2008, and conducted a tender in September 2008 to build a nuclear plant.

The energy market liberalization attempts were made recently, but the global economic crisis delayed these attempts. Private firms are able to develop projects with a license obtained from the Energy Market Regulatory Authority, an independent regulatory body. The state electricity utility has been unbundled into power generation, transmission, distribution, and trading companies, and after years of delays, the first four electricity distribution regions were privatized in 2008.

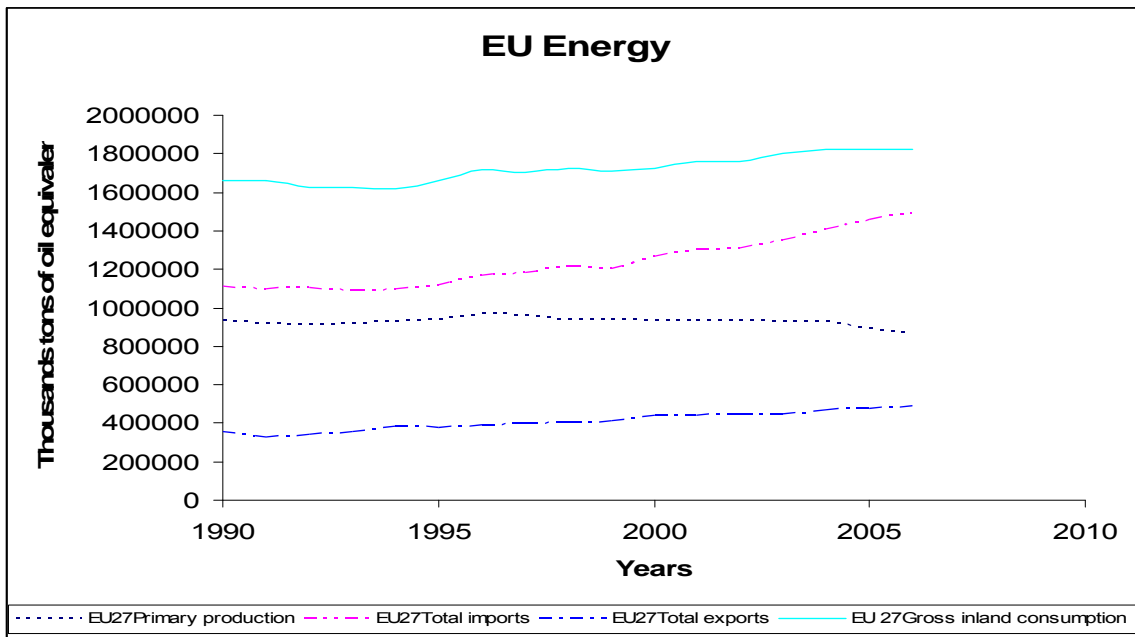
Natural gas distribution in cities, except Ankara and Istanbul, is dominated by the private sector. There have been considerable attempts to privatize Ankara and Istanbul distribution networks.

Turkey is trying to be the energy corridor for Europe with gas and petrol pipe lines from Azerbaijan and Iraq. Domestic primary energy production has not changed very much since the early 1990's while the domestic energy demand is rapidly growing. Figure 15 confirms this fact. The increasing demand with little change in domestic energy production leaves the country with the only choice of energy import.

**Figure 15: Turkish energy production, demand, export and import**

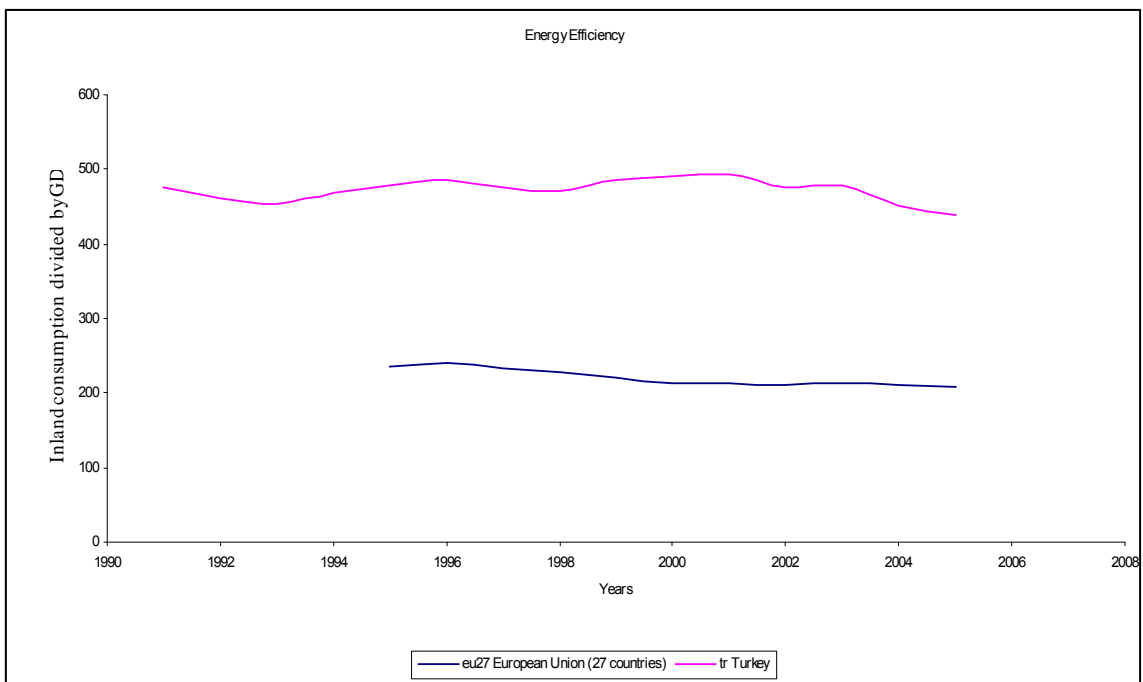


Source: Eurostat.

**Figure 16: EU energy production, import and export.**

Source: Eurostat.

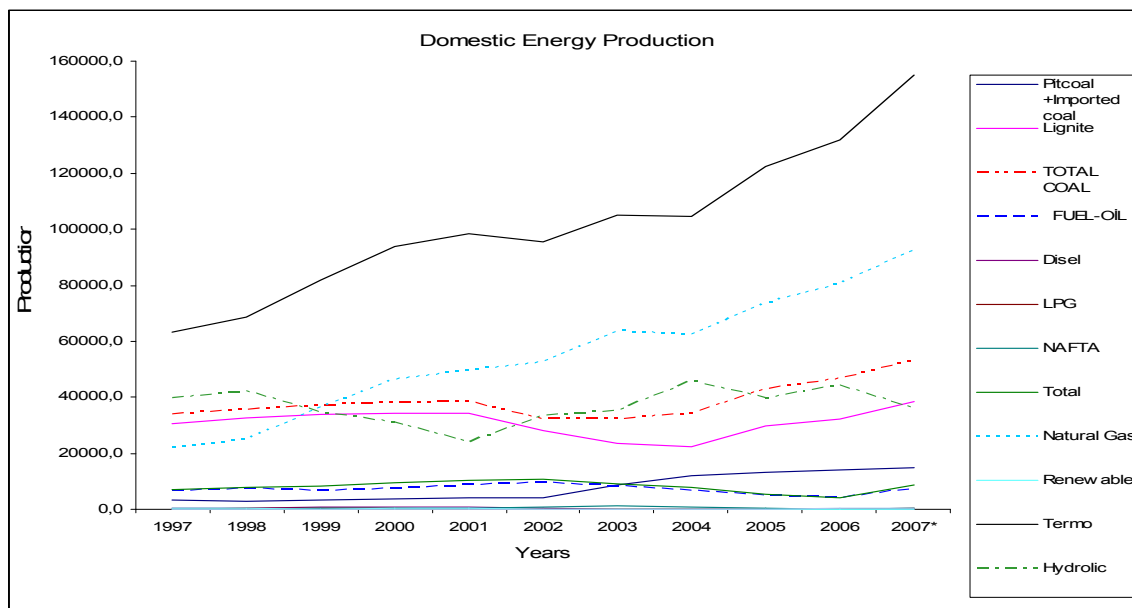
Compared to EU 27, Turkey needs to improve energy production urgently. Figure 16 provides EU 27 energy production, import and export for the last 20 years in thousand tons of oil equivalent measures.

**Figure 17: Inland energy efficiency; (Inland energy consumption divided by GDP)**

Source: Eurostat.

Figure 17 compares the energy efficiency between Turkey and EU 27 for the last decade. The energy efficiency of Turkey is lower than EU 27. The main energy source is thermo energy followed by imported natural gas. The renewable energy resources (except the hydro energy) are extremely low and only recently these forms of energy resources are on the agenda. Turkey's traditional hydro energy production is considered renewable and usually environmentally friendly. There is no nuclear energy production, but currently Turkey is constructing a nuclear energy power station. Figure 18 confirms these resources with the other energy resources of Turkey.

**Figure 18: Energy production resources in Turkey. (in thousands tons of oil equivalent)**

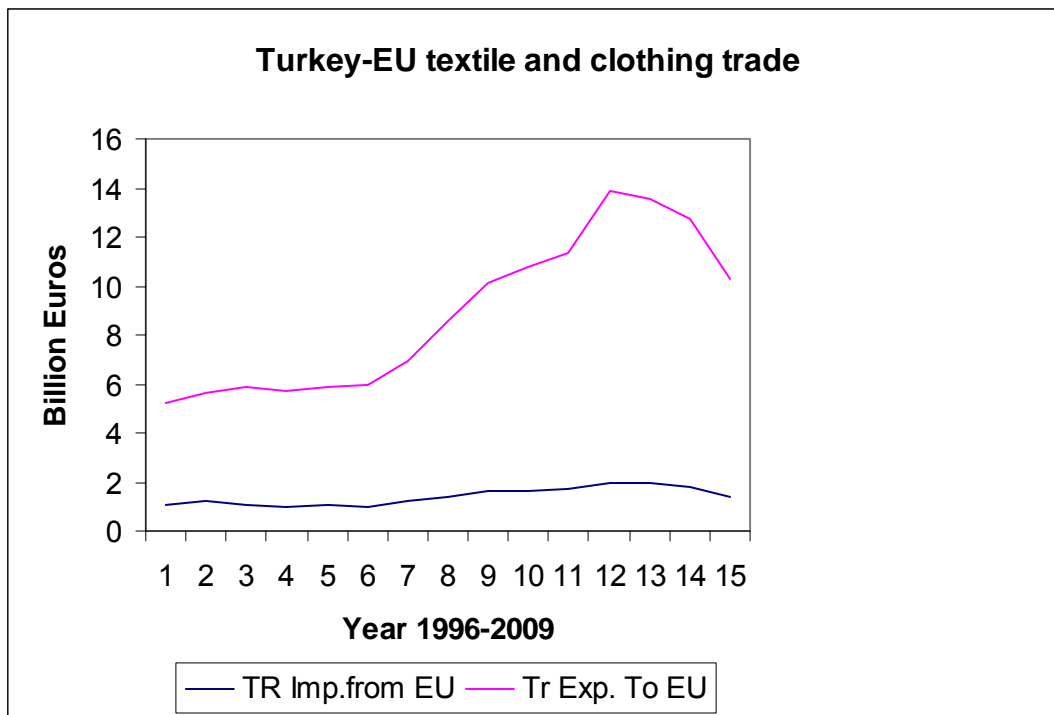


Energy production, especially with the nuclear energy debate, highlighted the issue of environmental problems, which have not been given enough attention recently.

Another important problem in the energy market is the need for a serious independent market regulator. As the energy forms an oligopolistic market structure, Turkish consumers desperately need a watch dog for gas and electricity markets.

## 8.2 The textile industry

The textile industry has been described as the locomotive of the Turkish Economy for years. The modern and competitive Turkish textile industry was born after the industrialization efforts of the 60's and 70's. Since 1990, the textile and clothing industry accounts for 40 % of industrial production, 35% of export earnings, 30% of the manufacturing labor force and 10% of the GNP in general. The major export market for Turkish textile and apparel goods is the EU countries, which account for about 65% of total textile and apparel exports. Turkey ranks 2nd in apparel and textile imports to the EU having an 8.2% and 4.8% share in the EU's total textile and apparel imports respectively as of 2003. The figure below depicts the EU –Turkey trade from 1996-2009. Due to the impact of the global crisis, textile trade between EU and Turkey decreased in the recent years but the value of exports is still higher than 3500 million dollars. (Figure 19) According to the RCA analysis (Box 2), textile and clothing have the highest comparative advantage score in Turkey.

**Figure 19: Textile trade between the EU and Turkey, 1996-2009**

Source: Euro stat (Billion Euros)

Today, Turkey is one of the important textile and clothing producers and exporters in the world. The growing impact of the global crisis affected the Turkish textile industry in recent years. Their export has declined and record job losses contribute to a serious production decline. The sector needs urgent rescue work.

### 8.3 Services, in particular Mode 4

The concept of international trade in services is relatively new. WTO Member countries have committed themselves to the progressive liberalization of services.

Mode 4 is, in the language of the WTO, 'the temporary movement of natural persons [in contrast to corporate entities], across borders for the purpose of supplying services'. Mode 1 is the first form of this classification and can be described as a cross border supply. Mode 2 is a consumption abroad (e.g. tourism, foreign student market, etc.), Mode 3 is a commercial presence (e.g. corporate subsidiary) and Mode 4 is the presence of natural persons (e.g. workers moved across borders by a company, as intra corporate transferees). According to the World Trade Organization, 'little progress has been made in the liberalization of the movement of service suppliers under Mode 4.

The EU is offering Mode 4 access in all the trade agreements it is negotiating. The EU is including Mode 4 offers in all the bilateral and Economic Partnership Agreements under negotiation, where there is actually much more progress than in the Doha negotiations. The EU requirement is for skilled workers. While Mode 4 technically covers all skill levels, in practice it is generally limited to the higher skilled workers such as managers, business visitors, etc. Furthermore, general terms used in commitments such as managers or business visitors are not defined, leaving it open to interpretation and discretionary action by officials. The result is that the EU countries tended to be extremely conservative in implementing Mode 4 for Turkish citizens. Expensive, short term and unacceptable visa requirements



from the consulates, made this service nearly impossible. Apart from the visa barrier, the labor immobility between the two entities is a serious impediment to services.

**Table 7: GATS classification of services.**

|                                      | Criteria   | Supplier Presence   |
|--------------------------------------|--|---|
| Mode 1: Cross-border supply          | Service delivered within the territory of the Member, from the territory of another Member                                     | Service supplier not present within the territory of the member |
| Mode 2: Consumption abroad           | Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member |   |
| Mode 3: Commercial presence          | Service delivered within the territory of the Member, through the commercial presence of the supplier                          | Service supplier present within the territory of the Member     |
| Mode 4: Presence of a natural person | Service delivered within the territory of the Member, with supplier present as a <a href="#">natural person</a>                |   |

Source: Note: From the document MTN.GNS/W/124, available on the WTO Website.

As for policy advice, Turkey can promote the increase in the services trade along the lines of a future plan for knowledge-based economy (or at least a semi-skilled labor oriented expansion).

#### **8.4 Intellectual Property Rights (IPR)**

Turkey has made considerable progress in the area of IPRs. The Turkish Patent Institute (TSE) has administrative and financial autonomy and has full responsibility for the registration and administration of patents and IPRs (trademarks, industrial designs and destination of origin). On the legislative side, a first important step has been the adoption of detailed legislation aimed at strengthening the alignment with EU directives on rental rights and lending, copyrights and the provisions of the Rome and Bern Conventions, TRIPs and the World Intellectual Property Organization (WIPO) 'Internet' Treaties. Furthermore, in November 2000 Turkey ratified and acceded to the European Patent Convention. Moreover, in the area of protection and supervision, in 2001, Turkey adopted new legislation identifying the division of legislative powers between the general civil and penal courts and new specialized courts that are handling cases related to IPRs.

According to the 'Europa Press Release' dated 10/11/2004, Turkey was one of the most problematic nine countries in the world. Copyright - Piracy (cassettes and CDs) is the main area of violation in the music industry. Piracy in Turkey is estimated at 50-75% of the market, with the higher figure reflecting piracy of international repertoire. Trademarks - Extensive and systematic counterfeiting of trademarks on clothes, footwear, leather goods, apparel, car parts and others.

'The Europa report' in 2007, declared that counterfeit goods come from: in the category "Foodstuff and beverages", Turkey was the main source followed by China; for the category "Cosmetics and personal care products", Georgia followed by Turkey and China were the main sources.

There is a considerable effort and improvement in the latest years in Turkey about the IPR and counterfeit goods. Statistics published by the European Commission (IP/09/1106 Brussels, 9 July 2009)

relating to goods infringing on intellectual property rights (IPR), show for the sixth consecutive year, a significant improvement in this area in Turkey.

Turkey's intellectual property rights regime has improved in recent years. For example, in 2008 the Ministry of Culture published a new circular, reminding all government agencies of the requirement to use licensed software, which the software industry has welcomed. As a result of notable progress on copyright enforcement, seizures of pirated goods, and the imposition of deterrent penalties by the courts, Turkey was lowered from the Priority Watch List to the Watch List in the course of the 2008 Special 301 review.

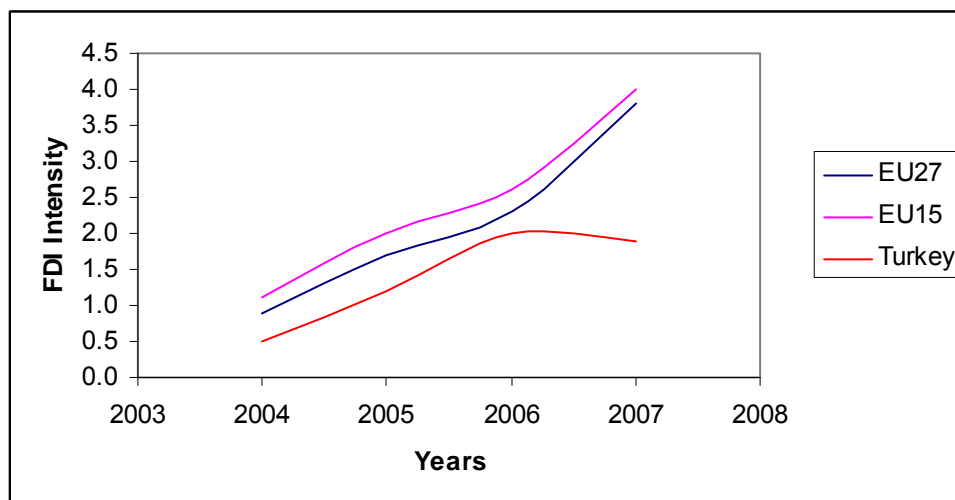
In spite of this progress, the pharmaceutical industry is concerned that certain proposals under

Consideration by the Parliament regarding patents and protection of test and other data submitted for marketing approval may erode Turkey's standards for protection and enforcement. Furthermore, trademark rights holders contend that there is widespread and often sophisticated counterfeiting of their trademarks in Turkey, especially in apparel, film, cosmetics, detergent, and other products. Trademark industry representatives are concerned with recent developments relating to Turkey's trademark laws, particularly a 2008 Constitutional Court ruling that invalidated the portion of trademark law that criminalized trademark infringement. This decision was later reversed through legislation, but the Turkish government's initial inaction in the face of the court decision led to the "downgrading" of approximately 9,000 pending criminal trademark cases to a lesser charge. IPR court cases are declining and the situation is gradually improving but there is still more to do in the area of Intellectual Property.

## 8.5 FDIs and related regulatory issues

According to the UNCTAD reports, global FDI flows have been severely affected worldwide by the economic and financial crisis. Inflows are expected to fall from \$1.7 trillion to below \$1.2 trillion in 2009, with a slow recovery in 2010 (to a level up to \$1.4 trillion) and gaining momentum in 2011 (approaching \$1.8 trillion).

**Figure 20: FDI Intensity; Average value of inward and outward Foreign Direct Investment flows divided by GDP, multiplied by 100**

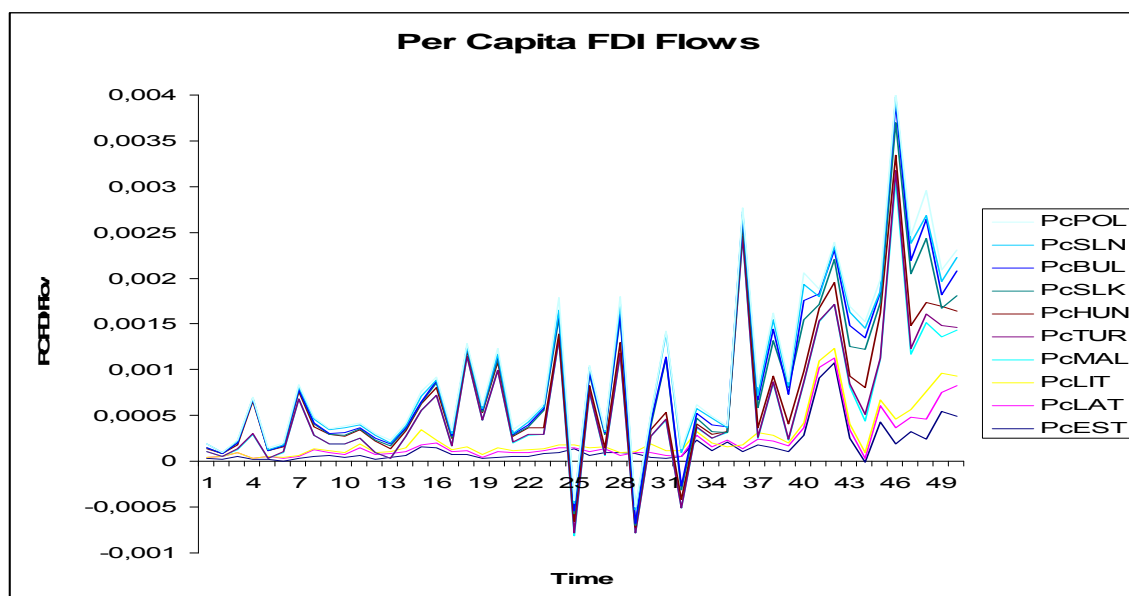


Source: Eurostat.

The crisis has changed the FDI landscape: investments to developing and transition economies surged, increasing their share in global FDI flows to 43% in 2008. This was partly due to a concurrent large

decline in FDI flows to developed countries (29%). The expansion of FDI inflows to South-East Europe and the CIS rose for the eighth year running. However, in 2009, FDI flows to all regions suffered from a decline. Turkey has become an attractive location for European direct investment after candidacy status. In 2005, the EU firms invested nearly €7 billion there, which was close to 3% of all the outward EU FDI flows. The number, as a clear indication of Turkey's candidacy status, increased dramatically between 2005 and 2008. Figure 21 depicts per capita FDI inflows to Turkey and the other 10 new members of the EU from 1996-2008. It is expected that, along with closer integration with the EU, investment flows to the region will increase further, as happened similarly for all the current new member countries.

**Figure: 21. Per capita FDI flows of Turkey and the new EU members, 1996-2008**



Source: Eurostat.(in thousands)

EU accession talks have a great impact on FDI flows (Figure 21) in some countries. The highest FDI inflow is observed in Poland followed by Bulgaria, Slovakia, Hungary and Turkey. Although there appeared to be an increase in FDI inflow into the other new accession countries, the inflows are relatively smaller for the countries: Czech Republic, Malta, Lithuania, Estonia and Latvia. Figure 21 shows the per capita FDI flows for the years from 1996-2008. Per capita FDI figures are obtained by dividing the total FDI flow by each countries population. Due to the prospect of candidacy and membership, per capita FDI flows are generally increasing for Turkey and the other new member states.

## 8.6 Market Access, Non-Tariff Barriers and the EU visa restrictions to Turkish citizens.

According to the trade tariff restrictiveness index, Turkey's economy is the fourth most open to merchandise imports in the world, behind only Hong Kong, Singapore and Switzerland, but ahead of the US, which is the 11th most open economy. According to the world trade indicators in 2009-10, Turkey is one of the most open economies of the world. This does of course not imply that there are no non-tariff barriers to trade between Turkey and the EU. Some of the issues of technical barriers are discussed in the earlier Customs Union section. One of the most debated non-tariff barriers to trade between Turkey and the EU are the EU's visa restrictions to Turkish citizens. Despite the decision by the

Court of Justice of the European Communities ruled on 19 February (2009)<sup>7</sup>, all EU countries require a visa for Turkish citizens.

**Table 8: The world trade indicators (2009-2010)**

| Indicators Category | Trade Policy                          | External Environment                              | Institutional Environment     | Trade Facilitation | Trade Outcome                      |
|---------------------|---------------------------------------|---|-------------------------------|--------------------|------------------------------------|
| Country             | TTRI (MFN applied tariff) - All Goods | MA-TTRI (applied tariff incl. prefs.) - All Goods | Ease of Doing Business - Rank | LPI - Overall      | Real growth in total trade (g+s,%) |
| Year                | 2006-09 Latest                        | 2006-09 Latest                                    | 2006-09 Latest                | 2006-09 Latest     | 2006-09 Latest                     |
| Hong Kong, China    | 1                                     | 78  | 3                             | 13                 | 144                                |
| Singapore           | 1                                     | 54  | 1                             | 2                  | 130                                |
| Switzerland         | 3                                     | 43  | 21                            | 6                  | 139                                |
| Papua New Guinea    | 4                                     | 6   | 102                           | 126                | 82                                 |
| Turkey              | 5                                     | 53  | 73                            | 39                 | 156                                |
| Israel              | 6                                     | 17  | 29                            | 31                 | 134                                |
| Kazakhstan          | 7                                     | 24  | 63                            | 63                 | 121                                |
| Norway              | 8                                     | 40  | 10                            | 10                 | 77                                 |
| United States       | 9                                     | 73  | 4                             | 15                 | 143                                |

Source: The World Bank;

These visa applications for Turkish citizens are leading to unfair competition by erecting a non-technical barrier to trade. Although research on the economic impact of such practices are limited, the Oxford Economics (2008) investigated the impact of visa fees on visits and they concluded that increases in visa fees have a statistically significant negative effect on either applications for visas or visas issued once other factors are allowed for.

The whole visa debate started when the German authorities refused to grant two Turkish truckers visas - a decision the two men challenged in court<sup>8</sup>. As for visas applied by the EU members on Turkish citizens, the Commission has adopted an extremely passive stance despite the final decision of the European Court of Justice. In fact, it is widely believed that the Commission is the guardian of the treaties, to fulfill its obligation and make necessary legal implementations in the subject matter. However, the removal of visa requirements on Turkish citizens is not all that straight forward. In order to abolish visa practices, the EU demands that Turkey ratify the readmission agreement concerning refugees, complete the action plan regarding integrated border management, and adopt the biometric passport format. Turkey

<sup>7</sup> Turkish businessmen cannot be required to apply for a visa to conduct business trips in Europe

<sup>8</sup> The court ruled that the EU cannot require visas from Turkish nationals entering the European Union for an exchange of services, based on Article 41 of an Additional Protocol signed by Turkey and the European Economic Community on November 23, 1970.

is concentrating efforts on an impact assessment study for the implementation of “readmission agreement” as well as on other relevant issues.

If the political argument is put on one side, the other side is economical. The visa matter can be discussed in the context of a customs union because the EU’s strict visa regulations toward Turkish citizens create asymmetrical costs<sup>9</sup> for businessmen, and there is no compensation mechanism for this. The Turkish business community is perhaps the first and foremost group, which experiences the negative impact directly. While goods circulate freely thanks to the Customs Union, the businesspeople that produce and trade these goods need to overcome the visa barrier. This creates unfair competition. In addition to that, their counterparts in Europe are either exempt from the visa requirement, or they are able to acquire visas in a very short period of time for very little money, which again puts Turkish businessmen in a starkly disadvantaged position. It becomes extremely difficult for them to conduct their regular business relations, let alone initiate new business deals. As such, this leads to unfair competition by erecting a non-technical barrier to trade. What is worse is that Turkish businessmen have to present their bank accounts and receive letters of invitation from their European partners in order to obtain visas. This brings up the issue of a breach in commercial confidentiality. The majority of the Turkish population is wary of both the visa application process and the procedural shortcomings, ranging from the attitude of officials to the numerous documents required and the additional costs. The most common complaints expressed by Turkish people from different walks of life are the following: individuals miss meetings, conferences, tenders or job appointments due to delays in visa procedures or ultimate rejections; Erasmus students lose their right to scholarships because they are unable to start their courses on time due to delays; researchers cannot travel for visa-related problems; academics and doctors are unable to attend international conferences or seminars on time, if they are able to attend at all. People face major difficulties and encounter material and psychological losses, for not being able to take part in tenders/seminars they have been invited to, or some even have to give up scholarships just because their visas are not issued on time or their application is rejected without any prior notice or right to appeal. These practices are not about the two economic entities which are integrating, it seems to be that they are rather dis-integrating.

If Turkey is ever going to be the part of the single European market, visa issues need to be put aside and labor mobility should not be restricted.

## **8.7 Sanitary and phytosanitary issues**

Sanitary and phytosanitary issues are about the fact that your country’s consumers are being supplied with food that is safe to eat — “safe” by the standards you consider appropriate. And at the same time, how can you ensure that strict health and safety regulations are not being used as an excuse for protecting domestic producers? An agreement on how governments can apply food safety and animal and plant health measures (sanitary and phytosanitary or SPS measures) sets out the basic rules in the WTO. Turkey is a full signatory of the WTO Sanitary and Phytosanitary Measures (SPS) Agreement. Although both sides, the EU and Turkey, agree on SPS measures and there is a wide practice to use that as an excuse to prevent trade. Examples from the Turkish side are; the out breaks of Bovine Spongiform Encephalopathy (BSE) and foot and mouth disease (FMD) in Europe strengthened Turkey’s resolve to prevent imports of poultry and meat products. The government maintains that the ban on meat imports relates to valid health concerns, but has not established any public health requirements for the

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<sup>9</sup> Minimum visa cost start at 60- 150 Euros for each visit to Schengen countries.

entry of foreign meat onto the Turkish market. The EU uses similar measures for fresh fruits and vegetables.

## **8.8 Small and Medium-Sized Enterprises (SMEs).**

According to the study of the European Parliament's Committee on International Trade<sup>10</sup>; 'Micro, small and medium-sized enterprises (SMEs) are often referred to as the backbone of the European economy. They represent 99 % of all enterprises in the EU and provide around 65 million jobs'. What is an SME? Although there is no clear unique definition of SME, the most commonly used definition in Turkey is the employment definition. For example, if the establishments have less than 100 employees then the establishment is considered to be a SME. However, the employment definition is not clear enough to define what exactly the SME is. The definition in the EU and in Turkey differs to a great extent. The OECD study<sup>11</sup> summarizes these definitions for some Turkish and EU formats. In general Turkish SME's average profile is different from that of SMEs in the European Union or in most other OECD countries in that their average workforce and turnover are much smaller. According to the EU definition, enterprises with fewer than 500 employees are considered to be a SME. The coverage of Turkey's various national definitions are relatively narrow.

There are a few public bodies which are involved in framing and implementing SME-specific policies in Turkey. These are; State Planning Organization (SPO), Small and Medium Industry Development Organization (KOSGEB), Under secretariat of Foreign Trade, the Treasury, the Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey (TOBB), Halkbank etc.

The SPO formulates long-term development programs as well as annual programs that include policies for SMEs. KOSGEB's role is to implement SME policies with the aim of supporting their growth and development in Turkey. KOSGEB carries out the necessary development and support programs for the following functions: developing SMEs' technological skills, improving their training and information levels, providing appropriate financial mechanisms and improving their managerial infrastructure. The Under secretariat of Treasury is responsible for state aid to SMEs' investments, while the under secretariat of Foreign Trade helps deploy programs to foster the creation of SMEs. Business organizations such as the Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey (TOBB) and the Confederation of Tradesmen and Artisans of Turkey (TESK) also play an important role in implementing these policies. Financial bodies lend support in the form of loans and guarantees to SMEs. They include the Halk Bank, the Union of Credit and Guarantee Cooperatives for Tradesmen and Artisans of Turkey (TESKOMB) and the Credit Guarantee Fund, Inc. (KGF). Other institutions provide SMEs with support and services in the areas of technology, scientific and technical research, etc.

As the OECD report outlines the 'SMEs dominate the economy in terms of employment, they evidently operate with comparatively little capital equipment, generate relatively low levels of value added, make only a small contribution to Turkish exports and receive only a marginal share of the funds mobilized by the banking sector'. They also lag well behind in terms of know-how, skill levels, capital investment to support their activities, and access and ability to take advantage of modern technologies, especially in

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<sup>10</sup> For a more detailed information see the 'SMEs and International Trade' study carried out for the EP's committee on International Trade by Professor Carlo Altomonte.

<sup>11</sup> OECD (2006) 'SME's in Turkey; Issues and Policies' Publications, 2 rue André-Pascal, 75775 Paris Cedex 16, France.

the information and communications fields. As in most other countries, they find it difficult to obtain financing.

Strengthening the trade potential of SMEs can be done by improving: i) internationalization and investment promotion facilities, ii) increasing the technical capacity, iv) foreign trade support units, v) training sessions, seminars, workshops, vi) business support services, vii) "start-exporting Programs".

## **8.9 Antidumping policies**

Economic literature has explained the dumping as a practice of lowering the price (less than their normal price in the exporter's domestic market)<sup>12</sup>. Dumping is generally seen either, as an exercise by foreign firms to monopolize power in international trade, or as a response to changing demand coupled with an inability to adjust production capacity over the course of the business cycle. There is extensive literature that sees dumping as a reflection of monopoly power.

Brander and Krugman (1983) argued that the welfare effects of dumping are ambiguous because of two opposing forces. Reciprocal dumping by domestic and foreign firms increases competition and reduces the market power of the incumbent firm in its domestic market. However, economic resources are wasted through the cost of transporting goods between the two countries. Whether welfare rises or not depends on the magnitudes of these two opposing effects. In all these cases, dumping will be detrimental to domestic industry. The presence of dumped imports increases the competition faced by domestic industry and often leads to a reduction in domestic output. In the predatory dumping case, the domestic industry will cease to exist.

According to a WTO study, Turkey is still far from the EU average levels in both the Average Dumping Duties and Average applied MFN rates.

## **9 AN ASSESSMENT OF TURKEY'S COMMITMENT TOWARD ENVIRONMENT-FRIENDLY TRADE POLICIES.**

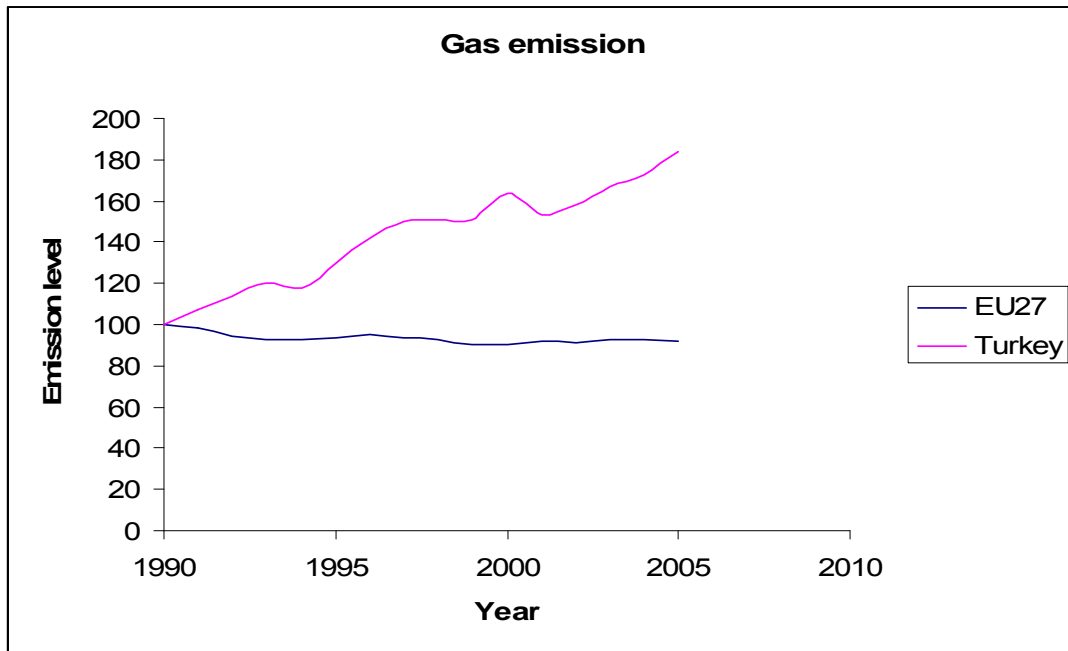
Pollution levels on the rivers and lakes are an increasing concern in Turkey. Pollution levels in the Marmara sea, where one of the biggest industrial district of Turkey is located, are another concern. Current poor environmental regulations or lack of regulations will be improved by EU environment policy. As a developing economy, the emission gas levels are also dramatically increasing, Figure 22 depicts the comparative emission levels of Turkey with EU 27 average.

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<sup>12</sup> Viner (1923) defines dumping as essentially "price discrimination", in which a firm with monopoly or market power charges different prices to consumers in the home and export markets.



**Figure 22: Green house gas emission levels compared to EU 27. (in CO2 equivalent-Actual base year is 100)**



Source: Eurostat.

Turkey needs environmental regulations and enforcement urgently. The problem of pollution has started to appear in the daily newspapers. Recently one of the lakes (Bafa) near a bird reservation for bird passage was heavily polluted with industrial waste. Now there are no birds or fish living in that lake any more, not to mention other polluted rivers. Environmental problems remain on the agenda for a while in Turkey. These problems coincide with the social problems and it is often difficult to talk to people about environmental problems when they cannot even find decent food to survive. Poverty, the lack of education, poor health services and terrible distribution of income are the important topics that should be addressed.

### Box 3: OECD Classification of Environmental Goods and Services

The pollution management group includes goods that help control air pollution; manage wastewater and solid waste; clean up soil, surface water and groundwater; reduce noise and

Vibrations; and facilitate environmental monitoring, analysis and assessment. Cleaner technologies and products are goods that are intrinsically cleaner or more resource efficient than available alternatives. For example, a wind mill is fundamentally cleaner than a coal-fired one. Goods under the category of resource management are used to control indoor pollution, supply water, or to help manage farms, forests or fisheries sustainably. This group also includes goods used to conserve energy (such as rechargeable batteries), and goods that help prevent or reduce the environmental impacts of natural disasters, such as seismic shields.

The United Nations Conference on Trade and Development (UNCTAD) defines environmentally preferable products as “products that cause significantly less environmental harm at some stage of their life cycle than alternative products that serve the same purpose”. Examples include jute rather than plastic or paper bags.

Source: OECD (1998) and UNCTAD (2003a)



The relationship between the environment and trade is a complex and highly debated issue. To achieve a sustainable development, the relationship between trade and environment has to be clarified. Since export led growth policies adopted in 1980, Turkey's rapid sectoral growth created increasing environmental problems. Weak implementation of environmental regulations and insufficient monitoring makes Turkey a probable candidate for a pollution haven. Akbostancı, E. and Tunça, I and Asık, S.T (2006) concluded that environmentally dirty industries' export demand increases compared to the total demand after Turkey became a CU member

In fact, Turkey has an excellent potential for more environment friendly production and the trade, especially in the energy sector such as the hydro energy, solar energy, and the wind power. Turkish textile firms offering certified organic cotton, many international firms (i.e. Hong Kong's Bros Holding Limited) buy their cotton from Turkey, currently the world's leading producer with the United States, followed by India, Peru and Uganda. How can the goods be classified as an environmental or otherwise? A most common classification is OECD's classification which is described in Box 3.

Turkey has an excellent climate for organic agro food and related products, there is a need for good regulation and efficient institutional structure for environment friendly trade and production. It is a good opportunity for Turkey that the EU opened the Environment chapter for negotiations.

Above all, as policy advice for an environmentally friendly energy production, Turkey could target subcontracting in the green-energy sector such as solar panels, wind mills, electric cars, computerized thermostats, etc.

## **10 CONCLUSIONS AND POLICY RECOMMENDATIONS**

The text presents the degree and the speed of economic integration of Turkey with the EU and with the outside world. As it has been shown, the integration has proved to be a successful tool to support development and also to some extent to stabilize a politically sensitive country. Given access to the EU market, Turkish enterprises have been able to increase the foreign sales of their production and modernize their economies. Therefore, for the EU, it is worth pushing for the next steps in CU and Turkey's full membership to the EU as strongly as possible and thus enhancing stability and sustainable growth. There are many conflicting studies about the costs and benefits of the CU between Turkey and EU. For any trade related policy to succeed, this evaluation should be made in the best way possible, with strong convincing empirical evidence, such that any opponents of trade policy (particularly liberal trade policy) cannot use the CU as an excuse for negative (or positive) propaganda in the direction of their special interest. Clearly, with well-developed institutions and market regulations, the EU has much to offer to Turkey. The EU is in an ideal position to press on reforming Turkish institutions and condition its assistance in fighting corruption. Within the trade- related measures, more diversification of export destinations and continuation of curbing dependency on Europe as the primary destination. This would also hedge against possible adverse currency fluctuations in the Euro zone. Turkey should continue to expand to neighboring countries and regions as new and increasing export destinations. Complementarities with EU should be studied better and target destinations should be evaluated accordingly. Trade creation and trade diversion effects of trading with EU should be evaluated in the light of these new destinations (such as Russia, China, Iraq etc...). Given the economic recovery, FDI inflows and growth so far and the earlier experience of the current new member countries, it can be foreseen that the returns to unskilled labor in Turkey will gradually decrease over time. Therefore, it is desirable to support actions which may increase the skills of the whole working- age population in Turkey and help to lessen current and future social pressures. Turkey should strengthen the trade potential of SMEs by improving, internationalization and investment promotion facilities, increasing the

technical capacity, foreign trade support units, training sessions, seminars, workshops, business support services and “start-exporting Programs”.

Turkey should promote the increase in the services trade along the lines of a future plan for knowledge-based economy (or at least a semi-skilled labor oriented expansion). Turkey could target subcontracting in the green-energy sector (solar panels, wind mills, electric cars, computerized thermostats, etc...). Turkey is possibly emerging as an energy hub between Europe and energy suppliers like Russia, Iran, Iraq and Azerbaijan. This could open up room for new strategic trade policies in energy, which could also affect EU candidacy or other privileged partnership options.

For any trade policy to work properly and induce positive development results, there should be a stable and solid economic and political environment (both in Turkey and in EU). Turkey's progress in the EU membership negotiations (regardless of the prospect of full membership) would help to establish progress towards such an environment. It would be mutually beneficial for all parties involved.

The individualized approach of the EU together with the membership perspective has motivated Turkey recently to pursue economic reforms, zero problem neighborhood policy and finally opening up and reintegrating with their neighbors. However, the EU has to play a difficult political game so as not to discourage the slowest progressing tendencies, so that they remain attached to the European values and do not revert to periods of instability. The EU is in an ideal position to press on reforming Turkish institutions, so that the administration is not prone to corruption or rent seeking. Certainly, some of the institutions should function according to more locally concerned regulations than those of the EU. Nevertheless, the basic dependence structure, transparency and ways to avoid conflicts of interests should be drawn up using the best EU practice. It has not been shown earlier in the text, but it is nevertheless observed that the good governance indicators<sup>13</sup> still cause problems in Turkey. In general, the perceived levels of good governance are not as high as Bulgaria and Romania (See Özdemir, 2009) but still problematic. This hampers sustainable development, increases the costs of transactions, discourages productive investment and hinders the reduction of the grey zone. After seeing some progress in the alignment to the EU *acquis*, economic development and the reintegration of the country, it is high time to condition some of the support (or the next integration steps) on normative compliance and less so on strategic interests. Within the area of international trade of commodities, it seems that high priority should be given to the integration of the agricultural sector. Turkey should have a better long-term strategic trade policy in agriculture, aligned with EU. Modernization and liberalization in this sector would inevitably increase unemployment, so a comprehensive reform package would be necessary. Turkey should consider its position if/when the Doha Round starts up again.

Finally, it is worth mentioning that the citizens of Turkey still face high restrictions with regard to the freedom of movement vis-à-vis the EU. Citizens of Turkey have to apply for a visa if they want to travel to any country of the Schengen zone, plus there are discretionary restrictions and differing implementations by different members of the EU. This elevates the costs of trade and acts as an additional factor still isolating many of the inhabitants of Turkey from the outside world and from European values. It seems that, taking stock of the progress in the development of the region, the visa restrictions on short-term travel on the EU side should be lifted as soon as possible.

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<sup>13</sup> World Bank's six different indicators of quality of governance: control of corruption, government effectiveness, political stability, regulatory quality, rule of law and the voice & accountability

The Commission should take more effective action to help the need for the gradual liberalization of the movement of people (in line with the Article 41 of an Additional Protocol signed by Turkey and the European Economic Community on November 23, 1970).

Although EU–Turkey relations have been dominated by the concern of political issues in Turkey such as democratization, human rights, corruption, Cyprus problem etc., the paper does not address these issues, at least not directly.

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## ANNEX I: SUPPLEMENTARY STATISTICS

### Annex I.1: EU-Turkey trade (commodity groups).

#### TURKEY-EU TRADE (COMMODITY GROUPS)

##### EXPORT

(Million \$)

| Year    | Investment Goods |           |          | Intermediate Goods |           |          | Consumer Goods |           |          | TOTAL  |
|---------|------------------|-----------|----------|--------------------|-----------|----------|----------------|-----------|----------|--------|
|         | Value            | Share (%) | Cha. (%) | Value              | Share (%) | Cha. (%) | Value          | Share (%) | Cha. (%) |        |
| 1995    | 318              | 2.9       | -        | 3,528              | 31.8      | -        | 7,232          | 65.3      | -        | 11,078 |
| 1996    | 396              | 3.4       | 24.5     | 3,727              | 32.3      | 5.6      | 7,425          | 64.3      | 2.7      | 11,549 |
| 1997    | 423              | 3.5       | 6.8      | 4,105              | 33.5      | 10.1     | 7,721          | 63.0      | 4.0      | 12,248 |
| 1998    | 489              | 3.6       | 15.6     | 4,612              | 34.2      | 12.4     | 8,397          | 62.2      | 8.8      | 13,498 |
| 1999    | 631              | 4.4       | 29.0     | 4,981              | 34.7      | 8.0      | 8,737          | 60.9      | 4.0      | 14,348 |
| 2000    | 666              | 4.6       | 5.5      | 5,203              | 35.9      | 4.5      | 8,631          | 59.5      | -1.2     | 14,510 |
| 2001    | 960              | 6.0       | 44.1     | 5,751              | 35.7      | 10.5     | 9,359          | 58.1      | 8.4      | 16,118 |
| 2002    | 1,274            | 6.9       | 32.7     | 5,834              | 31.6      | 1.4      | 11,330         | 61.4      | 21.1     | 18,459 |
| 2003    | 2,077            | 8.5       | 63.0     | 7,431              | 30.4      | 27.4     | 14,929         | 61.0      | 31.8     | 24,484 |
| 2004    | 3,776            | 11.0      | 81.8     | 10,772             | 31.3      | 45.0     | 19,759         | 57.4      | 32.4     | 34,451 |
| 2005    | 4,561            | 11.9      | 20.8     | 11,748             | 30.6      | 9.1      | 21,883         | 57.0      | 10.7     | 38,394 |
| 2006    | 5,081            | 11.5      | 11.4     | 15,492             | 35.2      | 31.9     | 23,250         | 52.8      | 6.2      | 44,004 |
| 2007    | 8,430            | 14.0      | 65.9     | 23,400             | 38.8      | 51.0     | 28,427         | 47.1      | 22.3     | 60,384 |
| 2008    | 9,950            | 15.7      | 18.0     | 25,179             | 39.7      | 7.6      | 28,094         | 44.3      | -1.2     | 63,398 |
| 2008/11 | 9,467            | 16        | -        | 24,112             | 40.1      | -        | 26,412         | 43.9      | -        | 60,156 |
| 2009/11 | 5,031            | 11.8      | -46.9    | 14,862             | 35.0      | -38.4    | 22,406         | 52.8      | -15.2    | 42,463 |

##### IMPORT

(Million \$)

| Year    | Investment Goods |           |          | Intermediate Goods |           |          | Consumer Goods |           |          | TOTAL  |
|---------|------------------|-----------|----------|--------------------|-----------|----------|----------------|-----------|----------|--------|
|         | Value            | Share (%) | Cha. (%) | Value              | Share (%) | Cha. (%) | Value          | Share (%) | Cha. (%) |        |
| 1995    | 4,831            | 28.7      | -        | 10,539             | 62.5      | -        | 1,491          | 8.8       | -        | 16,861 |
| 1996    | 7,388            | 31.9      | 52.9     | 12,880             | 55.7      | 22.2     | 2,870          | 12.4      | 92.5     | 23,138 |
| 1997    | 7327             | 29.5      | -0.8     | 14,009             | 56.3      | 8.8      | 3,535          | 14.2      | 23.2     | 24,870 |
| 1998    | 7,182            | 29.8      | -2.0     | 13,270             | 55.1      | -5.3     | 3,622          | 15.0      | 2.5      | 24,075 |
| 1999    | 6,069            | 28.4      | -15.5    | 11,823             | 55.2      | -10.9    | 3,525          | 16.5      | -2.7     | 21,401 |
| 2000    | 7,254            | 27.3      | 19.5     | 14,116             | 53.0      | 19.4     | 5,114          | 19.2      | 45.1     | 26,610 |
| 2001    | 4,317            | 23.6      | -40.5    | 11,168             | 61.1      | -20.9    | 2,595          | 14.2      | -49.3    | 18,280 |
| 2002    | 5,361            | 23.0      | 24.2     | 14,417             | 61.8      | 29.1     | 3,196          | 13.7      | 23.2     | 23,321 |
| 2003    | 6,999            | 22.1      | 30.6     | 19,233             | 60.7      | 33.4     | 5,147          | 16.2      | 61.0     | 31,695 |
| 2004    | 10,672           | 23        | 52.5     | 26,819             | 59.0      | 39.4     | 7,613          | 16.8      | 47.9     | 45,434 |
| 2005    | 11,587           | 24        | 8.6      | 29,008             | 58.9      | 8.2      | 8,044          | 16.3      | 5.7      | 49,220 |
| 2006    | 12,186           | 22        | 5.2      | 32,567             | 59.1      | 12.3     | 8,776          | 15.9      | 9.1      | 55,068 |
| 2007    | 14,678           | 21.4      | 20.4     | 43,250             | 63.0      | 32.8     | 10,339         | 15.1      | 17.8     | 68,608 |
| 2008    | 15,039           | 20.1      | 2.5      | 48,546             | 64.9      | 12.2     | 10,929         | 14.6      | 5.7      | 74,767 |
| 2008/11 | 13,907           | 20        | -        | 46,252             | 65.6      | -        | 10,144         | 14.4      | -        | 70,533 |
| 2009/11 | 9,944            | 19.8      | -28.5    | 31,339             | 62.3      | -32.2    | 8,896          | 17.7      | -12.3    | 50,305 |

Source: Undersecretariat of prime ministry for foreign trade, Turkey

## Annex I.2: Turkey's top 40 exporting countries

| EXPORT - Top Fourty Countries (1) |               |              |               |              |             |                    |              |                |              |              |
|-----------------------------------|---------------|--------------|---------------|--------------|-------------|--------------------|--------------|----------------|--------------|--------------|
| COUNTRIES                         | Million Dolar |              |               |              |             |                    |              |                |              |              |
|                                   | DECEMBER      |              |               |              |             | JANUARY - DECEMBER |              |                |              |              |
|                                   | 2008          | SHARE (%)    | 2009          | SHARE (%)    | CHANG E (%) | 2008               | SHARE (%)    | 2009           | SHARE (%)    | CHANG E (%)  |
| 1 Germany                         | 766           | 9.9          | 894           | 8.9          | 16.6        | 12,952             | 9.8          | 9,800          | 9.6          | -24.3        |
| 2 United Kingdom                  | 391           | 5.1          | 658           | 6.5          | 68.3        | 8,159              | 6.2          | 5,923          | 5.8          | -27.4        |
| 3 France                          | 332           | 4.3          | 628           | 6.2          | 89.1        | 6,618              | 5.0          | 6,212          | 6.1          | -6.1         |
| 4 Italy                           | 368           | 4.8          | 558           | 5.5          | 51.8        | 7,819              | 5.9          | 5,893          | 5.8          | -24.6        |
| 5 Iraq                            | 432           | 5.6          | 485           | 4.8          | 12.2        | 3,917              | 3.0          | 5,126          | 5.0          | 30.9         |
| 6 U.A.E                           | 280           | 3.6          | 386           | 3.8          | 38.1        | 7,975              | 6.0          | 2,899          | 2.8          | -63.7        |
| 7 Russia                          | 322           | 4.2          | 307           | 3.1          | -4.6        | 6,483              | 4.9          | 3,203          | 3.1          | -50.6        |
| 8 USA                             | 288           | 3.7          | 306           | 3.0          | 6.5         | 4,300              | 3.3          | 3,225          | 3.2          | -25.0        |
| 9 Switzerland                     | 358           | 4.6          | 296           | 2.9          | -17.2       | 2,857              | 2.2          | 3,932          | 3.8          | 37.6         |
| 10 Spain                          | 214           | 2.8          | 290           | 2.9          | 35.5        | 4,047              | 3.1          | 2,826          | 2.8          | -30.2        |
| 11 China                          | 66            | 0.9          | 239           | 2.4          | 263.6       | 1,437              | 1.1          | 1,599          | 1.6          | 11.3         |
| 12 Iran                           | 162           | 2.1          | 227           | 2.3          | 40.1        | 2,030              | 1.5          | 2,025          | 2.0          | -0.2         |
| 13 Belgium                        | 139           | 1.8          | 213           | 2.1          | 53.0        | 2,122              | 1.6          | 1,796          | 1.8          | -15.4        |
| 14 Romania                        | 135           | 1.7          | 207           | 2.1          | 53.4        | 3,987              | 3.0          | 2,215          | 2.2          | -44.4        |
| 15 Netherlands                    | 175           | 2.3          | 194           | 1.9          | 10.5        | 3,144              | 2.4          | 2,124          | 2.1          | -32.4        |
| 16 Libya                          | 75            | 1.0          | 174           | 1.7          | 132.8       | 1,074              | 0.8          | 1,800          | 1.8          | 67.6         |
| 17 Israel                         | 127           | 1.6          | 170           | 1.7          | 33.9        | 1,935              | 1.5          | 1,529          | 1.5          | -21.0        |
| 18 Saudi Arabia                   | 137           | 1.8          | 166           | 1.6          | 21.3        | 2,202              | 1.7          | 1,771          | 1.7          | -19.6        |
| 19 Algeria                        | 147           | 1.9          | 162           | 1.6          | 9.8         | 1,614              | 1.2          | 1,782          | 1.7          | 10.4         |
| 20 Egypt                          | 142           | 1.8          | 155           | 1.5          | 9.7         | 1,426              | 1.1          | 2,618          | 2.6          | 83.6         |
| 21 Azerbaijan                     | 122           | 1.6          | 133           | 1.3          | 9.0         | 1,667              | 1.3          | 1,399          | 1.4          | -16.1        |
| 22 Syria                          | 87            | 1.1          | 130           | 1.3          | 50.0        | 1,115              | 0.8          | 1,425          | 1.4          | 27.8         |
| 23 Greece                         | 104           | 1.3          | 129           | 1.3          | 24.3        | 2,430              | 1.8          | 1,634          | 1.6          | -32.7        |
| 24 Poland                         | 67            | 0.9          | 112           | 1.1          | 67.6        | 1,587              | 1.2          | 1,321          | 1.3          | -16.7        |
| 25 Bulgaria                       | 102           | 1.3          | 110           | 1.1          | 8.3         | 2,152              | 1.6          | 1,388          | 1.4          | -35.5        |
| 26 Ukraine                        | 85            | 1.1          | 104           | 1.0          | 23.0        | 2,188              | 1.7          | 1,034          | 1.0          | -52.8        |
| 27 Turkmenistan                   | 55            | 0.7          | 97            | 1.0          | 74.5        | 663                | 0.5          | 945            | 0.9          | 42.6         |
| 28 Turk Rep.Nor.Cyp.              | 59            | 0.8          | 92            | 0.9          | 57.3        | 1,072              | 0.8          | 771            | 0.8          | -28.1        |
| 29 Malta                          | 63            | 0.8          | 87            | 0.9          | 38.5        | 956                | 0.7          | 655            | 0.6          | -31.5        |
| 30 Sweden                         | 53            | 0.7          | 80            | 0.8          | 51.2        | 919                | 0.7          | 750            | 0.7          | -18.3        |
| 31 Denmark                        | 61            | 0.8          | 72            | 0.7          | 17.5        | 953                | 0.7          | 680            | 0.7          | -28.7        |
| 32 Tunisia                        | 88            | 1.1          | 67            | 0.7          | -23.9       | 778                | 0.6          | 647            | 0.6          | -16.8        |
| 33 Morocco                        | 43            | 0.6          | 66            | 0.7          | 53.0        | 958                | 0.7          | 601            | 0.6          | -37.3        |
| 34 Georgia                        | 62            | 0.8          | 65            | 0.6          | 5.3         | 998                | 0.8          | 746            | 0.7          | -25.2        |
| 35 Austria                        | 47            | 0.6          | 64            | 0.6          | 36.3        | 991                | 0.8          | 807            | 0.8          | -18.5        |
| 36 British Virgin Isl.            | 0             | 0.0          | 64            | 0.6          | +           | 82                 | 0.1          | 194            | 0.2          | 137.9        |
| 37 Lebanon                        | 57            | 0.7          | 59            | 0.6          | 3.2         | 665                | 0.5          | 687            | 0.7          | 3.2          |
| 38 Yemen                          | 49            | 0.6          | 58            | 0.6          | 18.4        | 354                | 0.3          | 379            | 0.4          | 7.3          |
| 39 Kazakhstan                     | 54            | 0.7          | 56            | 0.6          | 2.7         | 891                | 0.7          | 634            | 0.6          | -28.8        |
| 40 Hungary                        | 30            | 0.4          | 55            | 0.6          | 85.9        | 684                | 0.5          | 446            | 0.4          | -34.8        |
| <b>LIST TOTAL</b>                 | <b>6,342</b>  | <b>82.1</b>  | <b>8,415</b>  | <b>83.6</b>  | <b>32.7</b> | <b>108,200</b>     | <b>82.0</b>  | <b>85,441</b>  | <b>83.6</b>  | <b>-21.0</b> |
| <b>TOTAL</b>                      | <b>7,722</b>  | <b>100.0</b> | <b>10,062</b> | <b>100.0</b> | <b>30.3</b> | <b>132,027</b>     | <b>100.0</b> | <b>102,165</b> | <b>100.0</b> | <b>-22.6</b> |

(1) Ranked by the values of December 2009  
Updated : January, 29th 2010



**Annex I. 3: Turkey's top 40 import countries.**

| <b>IMPORT - Top Fourty Countries (1)</b> |                 |                  |               |                  |                   |                           |                  |                |                  |                   |
|--|-----------------|------------------|---------------|------------------|-------------------|---------------------------|------------------|----------------|------------------|-------------------|
| <b>COUNTRIES</b>                         | Million Dolar   |                  |               |                  |                   |                           |                  |                |                  |                   |
|  | <b>DECEMBER</b> |                  |               |                  |                   | <b>JANUARY - DECEMBER</b> |                  |                |                  |                   |
|  | <b>2008</b>     | <b>SHARE (%)</b> | <b>2009</b>   | <b>SHARE (%)</b> | <b>CHANGE (%)</b> | <b>2008</b>               | <b>SHARE (%)</b> | <b>2009</b>    | <b>SHARE (%)</b> | <b>CHANGE (%)</b> |
| 1- Russia                                | 2,039           | 17.9             | 2,022         | 13.5             | -0.8              | 31,364                    | 15.5             | 19,710         | 14.0             | -37.2             |
| 2- Germany                               | 1,256           | 11.0             | 1,602         | 10.7             | 27.5              | 18,687                    | 9.3              | 14,076         | 10.0             | -24.7             |
| 3- China                                 | 950             | 8.3              | 1,419         | 9.5              | 49.3              | 15,658                    | 7.8              | 12,655         | 9.0              | -19.2             |
| 4- USA                                   | 783             | 6.9              | 867           | 5.8              | 10.7              | 11,976                    | 5.9              | 8,568          | 6.1              | -28.5             |
| 5- Italy                                 | 597             | 5.2              | 864           | 5.8              | 44.6              | 11,012                    | 5.5              | 7,666          | 5.4              | -30.4             |
| 6- France                                | 451             | 4.0              | 741           | 4.9              | 64.4              | 9,022                     | 4.5              | 7,084          | 5.0              | -21.5             |
| 7- United Kingdom                        | 296             | 2.6              | 399           | 2.7              | 34.6              | 5,324                     | 2.6              | 3,465          | 2.5              | -34.9             |
| 8- Spain                                 | 235             | 2.1              | 372           | 2.5              | 58.1              | 4,548                     | 2.3              | 3,774          | 2.7              | -17.0             |
| 9- South Korea                           | 264             | 2.3              | 356           | 2.4              | 34.7              | 4,092                     | 2.0              | 3,116          | 2.2              | -23.9             |
| 10- Ukraine                              | 315             | 2.8              | 335           | 2.2              | 6.4               | 6,106                     | 3.0              | 3,155          | 2.2              | -48.3             |
| 11- Japan                                | 252             | 2.2              | 304           | 2.0              | 20.3              | 4,027                     | 2.0              | 2,779          | 2.0              | -31.0             |
| 12- Iran                                 | 358             | 3.1              | 278           | 1.9              | -22.5             | 8,200                     | 4.1              | 3,402          | 2.4              | -58.5             |
| 13- Netherlands                          | 197             | 1.7              | 267           | 1.8              | 35.4              | 3,056                     | 1.5              | 2,539          | 1.8              | -16.9             |
| 14- Romania                              | 118             | 1.0              | 237           | 1.6              | 100.2             | 3,548                     | 1.8              | 2,257          | 1.6              | -36.4             |
| 15- Belgium                              | 147             | 1.3              | 226           | 1.5              | 54.2              | 3,151                     | 1.6              | 2,370          | 1.7              | -24.8             |
| 16- Poland                               | 117             | 1.0              | 223           | 1.5              | 91.5              | 1,978                     | 1.0              | 1,816          | 1.3              | -8.2              |
| 17- India                                | 131             | 1.1              | 219           | 1.5              | 67.8              | 2,458                     | 1.2              | 1,891          | 1.3              | -23.1             |
| 18- Sweden                               | 142             | 1.2              | 209           | 1.4              | 47.4              | 1,909                     | 0.9              | 1,887          | 1.3              | -1.2              |
| 19- Norway                               | 24              | 0.2              | 182           | 1.2              | 643.9             | 623                       | 0.3              | 771            | 0.5              | 23.9              |
| 20- Algeria                              | 192             | 1.7              | 181           | 1.2              | -5.5              | 3,262                     | 1.6              | 2,028          | 1.4              | -37.8             |
| 21- Saudi Arabia                         | 112             | 1.0              | 165           | 1.1              | 47.7              | 3,322                     | 1.6              | 1,692          | 1.2              | -49.1             |
| 22- Switzerland                          | 114             | 1.0              | 156           | 1.0              | 36.5              | 5,588                     | 2.8              | 1,997          | 1.4              | -64.3             |
| 23- Brazil                               | 79              | 0.7              | 143           | 1.0              | 81.1              | 1,424                     | 0.7              | 1,106          | 0.8              | -22.3             |
| 24- Taiwan                               | 92              | 0.8              | 139           | 0.9              | 51.6              | 1,684                     | 0.8              | 1,339          | 1.0              | -20.5             |
| 25- Greece                               | 56              | 0.5              | 133           | 0.9              | 135.3             | 1,151                     | 0.6              | 1,129          | 0.8              | -1.9              |
| 26- Hungary                              | 55              | 0.5              | 131           | 0.9              | 138.6             | 1,286                     | 0.6              | 986            | 0.7              | -23.3             |
| 27- Bulgaria                             | 67              | 0.6              | 124           | 0.8              | 85.5              | 1,840                     | 0.9              | 1,116          | 0.8              | -39.4             |
| 28- Austria                              | 105             | 0.9              | 124           | 0.8              | 18.1              | 1,526                     | 0.8              | 1,203          | 0.9              | -21.2             |
| 29- Canada                               | 127             | 1.1              | 124           | 0.8              | -2.3              | 1,428                     | 0.7              | 937            | 0.7              | -34.4             |
| 30- Indonesia                            | 74              | 0.6              | 120           | 0.8              | 61.7              | 1,409                     | 0.7              | 1,016          | 0.7              | -27.9             |
| 31- Israel                               | 113             | 1.0              | 117           | 0.8              | 3.8               | 1,448                     | 0.7              | 1,070          | 0.8              | -26.1             |
| 32- Thailand                             | 71              | 0.6              | 117           | 0.8              | 65.2              | 1,473                     | 0.7              | 956            | 0.7              | -35.1             |
| 33- Czech Republic                       | 58              | 0.5              | 112           | 0.8              | 92.9              | 1,304                     | 0.6              | 1,027          | 0.7              | -21.2             |
| 34- Kazakhstan                           | 59              | 0.5              | 111           | 0.7              | 87.7              | 2,332                     | 1.2              | 1,077          | 0.8              | -53.8             |
| 35- Iraq                                 | 35              | 0.3              | 110           | 0.7              | 217.9             | 1,321                     | 0.7              | 952            | 0.7              | -27.9             |
| 36- Malaysia                             | 78              | 0.7              | 101           | 0.7              | 29.1              | 1,512                     | 0.7              | 960            | 0.7              | -36.5             |
| 37- South Africa                         | 63              | 0.6              | 87            | 0.6              | 37.6              | 1,502                     | 0.7              | 1,102          | 0.8              | -26.6             |
| 38- Ireland                              | 67              | 0.6              | 78            | 0.5              | 15.2              | 973                       | 0.5              | 814            | 0.6              | -16.4             |
| 39- Slovakia                             | 64              | 0.6              | 77            | 0.5              | 19.9              | 904                       | 0.4              | 812            | 0.6              | -10.2             |
| 40- Finland                              | 75              | 0.7              | 75            | 0.5              | 0.4               | 1,181                     | 0.6              | 795            | 0.6              | -32.7             |
| <b>LIST TOTAL</b>                        | <b>10,431</b>   | <b>91.5</b>      | <b>13,648</b> | <b>91.1</b>      | <b>30.8</b>       | <b>184,609</b>            | <b>91.4</b>      | <b>127,094</b> | <b>90.3</b>      | <b>-31.2</b>      |
| <b>GRAND TOTAL</b>                       | <b>11,405</b>   | <b>100.0</b>     | <b>14,989</b> | <b>100.0</b>     | <b>31.4</b>       | <b>201,964</b>            | <b>100.0</b>     | <b>140,775</b> | <b>100.0</b>     | <b>-30.3</b>      |

(1) Ranked by the values of December, 2010.  
Updated : January, 29th 2010

**Annex I. 4: Turkey's main trade partners. Source: IMF (DoTS)**

| TURKEY'S TRADE WITH MAIN PARTNERS (2008) |               |                   |                |                           |                    |                  |                |                          |                    |                   |                |
|--|---------------|-------------------|----------------|---------------------------|--------------------|------------------|----------------|--------------------------|--------------------|-------------------|----------------|
| The Major Imports Partners               |               |                   |                | The Major Export Partners |                    |                  |                | The Major Trade Partners |                    |                   |                |
| Rk                                       | Partners      | Mio euro          | %              | Rk                        | Partners           | Mio euro         | %              | Rk                       | Partners           | Mio euro          | %              |
|  | <b>World</b>  | <b>136,121.80</b> | <b>100.00%</b> |                           | <b>World</b>       | <b>89,129.50</b> | <b>100.00%</b> |                          | <b>World</b>       | <b>225,251.30</b> | <b>100.00%</b> |
| 1  | EU27          | 50,857.70         | 37.40%         | 1                         | EU27               | 43,092.00        | 48.30%         | 1                        | EU27               | 93,949.70         | 41.70%         |
| 2  | Russia        | 21,324.80         | 15.70%         | 2                         | United Arab Emirat | 5,422.30         | 6.10%          | 2                        | Russia             | 25,729.40         | 11.40%         |
| 3  | China         | 10,646.00         | 7.80%          | 3                         | Russia             | 4,404.60         | 4.90%          | 3                        | China              | 11,623.30         | 5.20%          |
| 4  | United States | 8,143.10          | 6.00%          | 4                         | United States      | 2,983.10         | 3.30%          | 4                        | United States      | 11,126.20         | 4.90%          |
| 5  | Iran          | 5,574.90          | 4.10%          | 5                         | Iraq               | 2,661.90         | 3.00%          | 5                        | Iran               | 6,954.40          | 3.10%          |
| 6  | Ukraine       | 4,151.70          | 3.00%          | 6                         | Switzerland        | 1,944.50         | 2.20%          | 6                        | United Arab Em     | 5,892.30          | 2.60%          |
| 7  | Switzerland   | 3,801.90          | 2.80%          | 7                         | Saudi Arabia       | 1,493.80         | 1.70%          | 7                        | Switzerland        | 5,746.40          | 2.60%          |
| 8  | South Korea   | 2,781.60          | 2.00%          | 8                         | Ukraine            | 1,484.80         | 1.70%          | 8                        | Ukraine            | 5,636.50          | 2.50%          |
| 9  | Japan         | 2,737.80          | 2.00%          | 9                         | Iran               | 1,379.40         | 1.50%          | 9                        | Saudi Arabia       | 3,752.70          | 1.70%          |
| 10                                       | Saudi Arabia  | 2,258.90          | 1.70%          | 10                        | Israel             | 1,315.80         | 1.50%          | 10                       | Iraq               | 3,559.90          | 1.60%          |
| 11                                       | Algeria       | 2,218.00          | 1.60%          | 11                        | Azerbaijan         | 1,132.90         | 1.30%          | 11                       | Algeria            | 3,315.00          | 1.50%          |
| 12                                       | India         | 1,671.10          | 1.20%          | 12                        | Algeria            | 1,097.00         | 1.20%          | 12                       | South Korea        | 2,966.00          | 1.30%          |
| 13                                       | Kasakhstan    | 1,585.50          | 1.20%          | 13                        | China              | 977.3            | 1.10%          | 13                       | Japan              | 2,962.50          | 1.30%          |
| 14                                       | Malaysia      | 1,028.30          | 0.80%          | 14                        | Egypt              | 969.4            | 1.10%          | 14                       | Israel             | 2,300.20          | 1.00%          |
| 15                                       | South Africa  | 1,021.50          | 0.80%          | 15                        | South Africa       | 842.1            | 0.90%          | 15                       | Kasakhstan         | 2,191.00          | 1.00%          |
| 16                                       | Thailand      | 1,001.80          | 0.70%          | 16                        | Syria              | 756.7            | 0.80%          | 16                       | India              | 2,040.10          | 0.90%          |
| 17                                       | Israel        | 984.4             | 0.70%          | 17                        | Libya              | 730.4            | 0.80%          | 17                       | South Africa       | 1,863.70          | 0.80%          |
| 18                                       | Canada        | 970.9             | 0.70%          | 18                        | Qatar              | 730.2            | 0.80%          | 18                       | Azerbaijan         | 1,764.20          | 0.80%          |
| 19                                       | Brazil        | 968.1             | 0.70%          | 19                        | Georgia            | 677.6            | 0.80%          | 19                       | Egypt              | 1,610.40          | 0.70%          |
| 20                                       | Indonesia     | 957.9             | 0.70%          | 20                        | Morocco            | 651.2            | 0.70%          | 20                       | Canada             | 1,311.80          | 0.60%          |
| 21                                       | Iraq          | 898.1             | 0.70%          | 21                        | Kasakhstan         | 605.5            | 0.70%          | 21                       | Syria              | 1,191.30          | 0.50%          |
| 22                                       | Egypt         | 641               | 0.50%          | 22                        | Singapore          | 539.2            | 0.60%          | 22                       | Brazil             | 1,184.30          | 0.50%          |
| 23                                       | Azerbaijan    | 631.2             | 0.50%          | 23                        | Tunisia            | 529.1            | 0.60%          | 23                       | Indonesia          | 1,151.30          | 0.50%          |
| 24                                       | Australia     | 562.5             | 0.40%          | 24                        | Lebanon            | 452.1            | 0.50%          | 24                       | Malaysia           | 1,095.00          | 0.50%          |
| 25                                       | Argentina     | 537               | 0.40%          | 25                        | Turkmenistan       | 450.6            | 0.50%          | 25                       | Thailand           | 1,070.00          | 0.50%          |
| 26                                       | United Arab   | 469.9             | 0.30%          | 26                        | Bosnia-Herzegovina | 388.9            | 0.40%          | 26                       | Georgia            | 1,034.10          | 0.50%          |
| 27                                       | Syria         | 434.6             | 0.30%          | 27                        | India              | 369              | 0.40%          | 27                       | Libya              | 959.1             | 0.40%          |
| 28                                       | Norway        | 423.3             | 0.30%          | 28                        | Canada             | 340.9            | 0.40%          | 28                       | Morocco            | 896.3             | 0.40%          |
| 29                                       | Pakistan      | 398.6             | 0.30%          | 29                        | Kuwait             | 335              | 0.40%          | 29                       | Qatar              | 838.6             | 0.40%          |
| 30                                       | Uzbekistan    | 394.9             | 0.30%          | 30                        | Jordan             | 312.8            | 0.40%          | 30                       | Australia          | 812.2             | 0.40%          |
| 31                                       | Georgia       | 356.6             | 0.30%          | 31                        | Norway             | 266              | 0.30%          | 31                       | Tunisia            | 777.5             | 0.30%          |
| 32                                       | Nigeria       | 354.9             | 0.30%          | 32                        | Australia          | 249.7            | 0.30%          | 32                       | Turkmenistan       | 715.3             | 0.30%          |
| 33                                       | Bangladesh    | 304.4             | 0.20%          | 33                        | Yemen              | 240.2            | 0.30%          | 33                       | Singapore          | 703.3             | 0.30%          |
| 34                                       | Vietnam       | 301.3             | 0.20%          | 34                        | Uzbekistan         | 229.1            | 0.30%          | 34                       | Norway             | 689.4             | 0.30%          |
| 35                                       | Turkmenistan  | 264.7             | 0.20%          | 35                        | Japan              | 224.7            | 0.30%          | 35                       | Uzbekistan         | 624               | 0.30%          |
| 36                                       | Mexico        | 259.7             | 0.20%          | 36                        | Croatia            | 223.3            | 0.30%          | 36                       | Argentina          | 609.9             | 0.30%          |
| 37                                       | Tunisia       | 248.4             | 0.20%          | 37                        | Brazil             | 216.2            | 0.20%          | 37                       | Lebanon            | 573.6             | 0.30%          |
| 38                                       | Morocco       | 245.1             | 0.20%          | 38                        | Bahrain            | 209.6            | 0.20%          | 38                       | Nigeria            | 545.6             | 0.20%          |
| 39                                       | Libya         | 228.7             | 0.20%          | 39                        | Albania            | 207.9            | 0.20%          | 39                       | Pakistan           | 504               | 0.20%          |
| 40                                       | Chile         | 220.4             | 0.20%          | 40                        | FYR Macedonia      | 200.6            | 0.20%          | 40                       | Vietnam            | 405.9             | 0.20%          |
| 41                                       | Colombia      | 184.3             | 0.10%          | 41                        | Indonesia          | 193.4            | 0.20%          | 41                       | Bosnia-Herzegovina | 405.6             | 0.20%          |
| 42                                       | Singapore     | 164               | 0.10%          | 42                        | Nigeria            | 190.7            | 0.20%          | 42                       | Kuwait             | 389.8             | 0.20%          |
| 43                                       | Venezuela     | 134.8             | 0.10%          | 43                        | South Korea        | 184.4            | 0.20%          | 43                       | Mexico             | 363.2             | 0.20%          |
| 44                                       | Hong Kong     | 131.4             | 0.10%          | 44                        | Sudan              | 159              | 0.20%          | 44                       | Bangladesh         | 351.7             | 0.20%          |
| 45                                       | Lebanon       | 121.6             | 0.10%          | 45                        | Kenya              | 158.5            | 0.20%          | 45                       | Jordan             | 330               | 0.10%          |
| 46                                       | Qatar         | 108.3             | 0.10%          | 46                        | Panama             | 155.1            | 0.20%          | 46                       | Chile              | 322.5             | 0.10%          |
| 47                                       | Tadjikistan   | 100.4             | 0.10%          | 47                        | Oman               | 146.6            | 0.20%          | 47                       | Croatia            | 295.2             | 0.10%          |
| 48                                       | Philippines   | 96.7              | 0.10%          | 48                        | Moldova            | 133.9            | 0.20%          | 48                       | Bahrain            | 274.5             | 0.10%          |
| 49                                       | Belarus       | 82.1              | 0.10%          | 49                        | Kyrgyz Republic    | 130.1            | 0.10%          | 49                       | Hong Kong          | 260               | 0.10%          |
| 50                                       | Ivory Coast   | 80.4              | 0.10%          | 50                        | Hong Kong          | 128.6            | 0.10%          | 50                       | Yemen              | 240.6             | 0.10%          |

## Annex I. 5: Turkey's main trading groups

| Turkey's Imports from ... |           |        | Turkey's Exports to ... |          |        | Turkey's Trade with... |           |        |
|---------------------------|-----------|--------|-------------------------|----------|--------|------------------------|-----------|--------|
| Partner regions           | Mio euro  | %      | Partner regions         | Mio euro | %      | Partner regions        | Mio euro  | %      |
| ACP                       | 1,751.70  | 1.30%  | ACP                     | 2,364.20 | 2.70%  | ACP                    | 4,116.00  | 1.80%  |
| Andean Commn              | 301.6     | 0.20%  | Andean Community        | 185.4    | 0.20%  | Andean Commun          | 487       | 0.20%  |
| ASEAN                     | 3,578.30  | 2.60%  | ASEAN                   | 1,043.40 | 1.20%  | ASEAN                  | 4,621.70  | 2.10%  |
| BRIC                      | 34,610.10 | 25.40% | BRIC                    | 5,967.10 | 6.70%  | BRIC                   | 40,577.20 | 18.00% |
| CACM                      | 31.6      | 0.00%  | CACM                    | 25.5     | 0.00%  | CACM                   | 57        | 0.00%  |
| Candidates                | 92        | 0.10%  | Candidates              | 424      | 0.50%  | Candidates             | 516       | 0.20%  |
| CIS                       | 28,972.90 | 21.30% | CIS                     | 9,467.90 | 10.60% | CIS                    | 38,440.80 | 17.10% |
| EFTA                      | 4,227.30  | 3.10%  | EFTA                    | 2,218.10 | 2.50%  | EFTA                   | 6,445.40  | 2.90%  |
| Latin America             | 2,527.80  | 1.90%  | Latin American C.       | 944.8    | 1.10%  | Latin American C       | 3,472.60  | 1.50%  |
| MEDA (excl E)             | 4,910.60  | 3.60%  | MEDA (excl EU and       | 6,098.10 | 6.80%  | MEDA (excl EU a        | 11,008.70 | 4.90%  |
| Mercosur                  | 1,559.30  | 1.10%  | Mercosur                | 301.1    | 0.30%  | Mercosur               | 1,860.30  | 0.80%  |
| NAFTA                     | 9,373.70  | 6.90%  | NAFTA                   | 3,427.50 | 3.80%  | NAFTA                  | 12,801.20 | 5.70%  |

EFTA: Iceland, Liechtenstein, Norway, Switzerland; Candidates: Croatia, FYR of Macedonia, Turkey; Andean Community: Bolivia, Colombia, Ecuador, Peru; CIS: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Kazakhstan, Moldova Republic of, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan; CACM: Honduras, El Salvador, Nicaragua, Costa Rica, Guatemala; Mercosur: Argentina, Brazil, Paraguay, Uruguay; NAFTA: Canada, Mexico, United States; Latin America C.: CACM, Mercosur, ANCOM, Chile, Cuba, Dominican Republic, Haiti, Mexico, Panama, Venezuela; BRIC: Brazil, Russia, India, China; ASEAN: Brunei Darussalam, Indonesia, Cambodia, Lao People's Democratic Republic, Myanmar, Malaysia, Philippines, Singapore, Thailand, Vietnam; ACP: 79 countries; MEDA (excl EU & Turkey): Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territory, Syrian Arab Republic, Tunisia.

Source: IMF (DoTS) DG TRADE  
European Union: 27 members. 22-Sep-09

## Annex 1. 7: Sectoral Breakdown of Turkish Exports to EU

SECTORAL BREAKDOWN OF TURKEY-EU TRADE  
EXPORT  
(Million \$)

| Year    | Agriculture (chapters 1-24) |          |          | Textile & Clothing (chapters 50-63) |          |          | Iron & Steel (chapters 72-73) |          |          | Machines (chapter 84) |          |          | Electronic Products (chapter 85) |          |          | Automobiles (chapter 87) |          |          | Other Industrial Products |          |          | Total  |
|---------|-----------------------------|----------|----------|-------------------------------------|----------|----------|-------------------------------|----------|----------|-----------------------|----------|----------|----------------------------------|----------|----------|--------------------------|----------|----------|---------------------------|----------|----------|--------|
|         | Value                       | Shr. (%) | Cha. (%) | Value                               | Shr. (%) | Cha. (%) | Value                         | Shr. (%) | Cha. (%) | Value                 | Shr. (%) | Cha. (%) | Value                            | Shr. (%) | Cha. (%) | Value                    | Shr. (%) | Cha. (%) | Value                     | Shr. (%) | Cha. (%) |        |
| 1996    | 1,935                       | 16.8     | -        | 5,665                               | 49.1     | -        | 420                           | 3.6      | -        | 447                   | 3.9      | -        | 777                              | 6.7      | -        | 397                      | 3.4      | -        | 2,016                     | 17.5     | -        | 11,549 |
| 1997    | 2,093                       | 17.1     | 8.2      | 5,933                               | 48.4     | 4.7      | 622                           | 5.1      | 48.1     | 195                   | 1.6      | -56.4    | 911                              | 7.4      | 17.2     | 263                      | 2.1      | -33.8    | 2,044                     | 16.7     | 1.4      | 12,248 |
| 1998    | 1,978                       | 14.7     | -5.5     | 6,469                               | 47.9     | 9.0      | 703                           | 5.2      | 13.0     | 624                   | 4.6      | 220.0    | 1,325                            | 9.8      | 45.4     | 298                      | 2.2      | 13.3     | 2,259                     | 16.7     | 10.5     | 13,498 |
| 1999    | 1,944                       | 13.5     | -1.7     | 6,378                               | 44.5     | -1.4     | 818                           | 5.7      | 16.4     | 743                   | 5.2      | 19.1     | 1,170                            | 8.2      | -11.7    | 948                      | 6.6      | 218.1    | 2,497                     | 17.4     | 10.5     | 14,348 |
| 2000    | 1,578                       | 10.9     | -18.8    | 6,492                               | 44.7     | 1.8      | 907                           | 6.3      | 10.9     | 769                   | 5.3      | 3.5      | 1,346                            | 9.3      | 15.0     | 988                      | 6.8      | 4.2      | 2,657                     | 18.3     | 6.4      | 14,510 |
| 2001    | 1,724                       | 10.7     | 9.3      | 6,724                               | 41.7     | 3.6      | 997                           | 6.2      | 9.9      | 998                   | 6.2      | 29.8     | 1,433                            | 8.9      | 6.5      | 1,692                    | 10.5     | 71.3     | 2,905                     | 18.0     | 9.3      | 16,118 |
| 2002    | 1,729                       | 9.4      | 0.3      | 7,656                               | 41.5     | 13.9     | 937                           | 5.1      | -6.0     | 1,244                 | 6.7      | 24.6     | 2,017                            | 10.9     | 40.8     | 2,259                    | 12.2     | 33.5     | 3,195                     | 17.3     | 10.0     | 18,459 |
| 2003    | 2,160                       | 8.8      | 24.9     | 9,634                               | 39.3     | 25.8     | 1,434                         | 5.9      | 53.0     | 1,794                 | 7.3      | 44.2     | 2,572                            | 10.5     | 27.5     | 3,708                    | 15.1     | 64.1     | 4,132                     | 16.9     | 29.3     | 24,484 |
| 2004    | 2,928                       | 8.5      | 35.6     | 11,428                              | 33.2     | 18.6     | 2,613                         | 7.6      | 82.2     | 2,380                 | 6.9      | 32.7     | 3,529                            | 10.2     | 37.2     | 6,314                    | 18.3     | 70.3     | 5,849                     | 17.0     | 41.6     | 34,451 |
| 2005    | 3,870                       | 10.1     | 32.2     | 12,279                              | 32.1     | 7.4      | 2,306                         | 6.0      | -11.7    | 2,958                 | 7.7      | 24.3     | 3,950                            | 10.3     | 11.9     | 7,075                    | 18.4     | 12.1     | 6,759                     | 17.6     | 15.6     | 38,394 |
| 2006    | 3,531                       | 8.0      | -8.8     | 12,917                              | 29.4     | 5.2      | 3,190                         | 7.3      | 38.3     | 3,602                 | 8.2      | 21.8     | 4,341                            | 9.9      | 9.9      | 9,018                    | 20.5     | 27.5     | 8,491                     | 19.3     | 25.6     | 44,004 |
| 2007    | 4,162                       | 6.9      | 17.9     | 16,063                              | 26.6     | 24.4     | 5,290                         | 8.8      | 65.8     | 4,955                 | 8.2      | 37.6     | 4,580                            | 7.6      | 5.5      | 12,487                   | 20.7     | 38.5     | 12,847                    | 21.3     | 51.3     | 60,384 |
| 2008    | 4,331                       | 6.8      | 4.1      | 15,725                              | 24.8     | -2.1     | 5,375                         | 8.5      | 1.6      | 5,450                 | 8.6      | 10.0     | 4,378                            | 6.9      | -4.4     | 13,461                   | 21.2     | 7.8      | 14,678                    | 23.2     | 14.3     | 63,398 |
| 2008/11 | 4,040                       | 6.1      | -        | 14,737                              | 24.4     | -        | 5,126                         | 8.8      | -        | 5,167                 | 8.5      | -        | 4,099                            | 6.4      | -        | 12,990                   | 22.6     | -        | 11,898                    | 23.2     | -        | 60,156 |
| 2009/11 | 3,653                       | 8.4      | -12.3    | 12,011                              | 29.3     | -24.0    | 2,491                         | 6.1      | -56.4    | 3,795                 | 9.2      | -31.7    | 3,219                            | 7.4      | -27.5    | 8,208                    | 19.5     | -45.4    | 6,501                     | 20.1     | -45.4    | 42,463 |

Source: Undersecretariat of prime ministry for foreign trade, Turkey

**Annex 1. 8: Sectoral breakdown of Turkish Imports from EU.**

## SECTORAL BREAKDOWN OF TURKEY-EU TRADE

Import  
(Million \$)

| Year    | Agriculture<br>(chapters 1-24) |          |          | Textile&Clothing<br>(chapters 50-63) |          |          | Iron&Steel<br>(chapters 72-73) |          |          | Machines (chapter 84) |          |          | Electronic Products<br>(chapter 85) |          |          | Automobiles (chapter 87) |          |          | Other Industrial<br>Products |          |          | Total  |
|---------|--------------------------------|----------|----------|--------------------------------------|----------|----------|--------------------------------|----------|----------|-----------------------|----------|----------|-------------------------------------|----------|----------|--------------------------|----------|----------|------------------------------|----------|----------|--------|
|         | Value                          | Shr. (%) | Cha. (%) | Value                                | Shr. (%) | Cha. (%) | Value                          | Shr. (%) | Cha. (%) | Value                 | Shr. (%) | Cha. (%) | Value                               | Shr. (%) | Cha. (%) | Value                    | Shr. (%) | Cha. (%) | Value                        | Shr. (%) | Cha. (%) |        |
| 1996    | 758                            | 3.3      | -        | 1,391                                | 6.0      | -        | 2,081                          | 9.0      | -        | 6,224                 | 26.9     | -        | 2,167                               | 9.4      | -        | 2,092                    | 9.0      | -        | 8,607                        | 37.2     | -        | 23,138 |
| 1997    | 566                            | 2.3      | -25.3    | 1,616                                | 6.5      | 16.2     | 1,872                          | 7.5      | -10.0    | 6,344                 | 25.5     | 1.9      | 2,770                               | 11.1     | 27.8     | 3,017                    | 12.1     | 44.2     | 8,925                        | 35.9     | 3.7      | 24,870 |
| 1998    | 535                            | 2.2      | -5.5     | 1,474                                | 6.1      | -8.8     | 1,466                          | 6.1      | -21.7    | 6,107                 | 25.4     | -3.7     | 3,263                               | 13.6     | 17.8     | 2,738                    | 11.4     | -9.2     | 8,778                        | 36.5     | -1.6     | 24,075 |
| 1999    | 533                            | 2.5      | -0.4     | 1,375                                | 6.4      | -6.7     | 942                            | 4.4      | -35.7    | 4,320                 | 20.2     | -29.3    | 4,011                               | 18.7     | 22.9     | 2,433                    | 11.4     | -11.1    | 7,998                        | 37.4     | -8.9     | 21,401 |
| 2000    | 526                            | 2.0      | -1.3     | 1,458                                | 5.5      | 6.0      | 1,332                          | 5.0      | 41.4     | 5,071                 | 19.1     | 17.4     | 4,648                               | 17.5     | 15.9     | 4,585                    | 17.2     | 88.5     | 9,459                        | 35.5     | 18.3     | 26,610 |
| 2001    | 340                            | 1.9      | -35.4    | 1,323                                | 7.2      | -9.3     | 1,003                          | 5.5      | -24.7    | 4,003                 | 21.9     | -21.1    | 2,749                               | 15.0     | -40.9    | 1,532                    | 8.4      | -66.6    | 7,751                        | 42.4     | -18.1    | 18,280 |
| 2002    | 490                            | 2.1      | 44.1     | 1,658                                | 7.1      | 25.3     | 1,496                          | 6.4      | 49.2     | 5,610                 | 24.1     | 40.1     | 3,143                               | 13.5     | 14.3     | 2,013                    | 8.6      | 31.4     | 9,662                        | 41.4     | 24.7     | 23,321 |
| 2003    | 661                            | 2.1      | 34.9     | 1,884                                | 5.9      | 13.6     | 2,407                          | 7.6      | 60.9     | 6,992                 | 22.1     | 24.6     | 3,654                               | 11.5     | 16.3     | 4,646                    | 14.7     | 130.8    | 12,603                       | 39.8     | 30.4     | 31,695 |
| 2004    | 801                            | 1.8      | 21.2     | 2,230                                | 4.9      | 18.4     | 3,034                          | 6.7      | 26.0     | 8,868                 | 19.5     | 26.8     | 4,915                               | 10.8     | 34.5     | 8,501                    | 18.7     | 83.0     | 17,224                       | 37.9     | 36.7     | 45,434 |
| 2005    | 938                            | 1.9      | 17.1     | 2,230                                | 4.5      | 0.0      | 3,750                          | 7.6      | 23.6     | 10,470                | 21.3     | 18.1     | 5,095                               | 10.4     | 3.7      | 8,463                    | 17.2     | -0.4     | 18,469                       | 37.5     | 7.2      | 49,220 |
| 2006    | 1,005                          | 1.9      | 7.1      | 2,366                                | 4.4      | 6.1      | 4,158                          | 7.7      | 10.9     | 11,850                | 21.5     | 13.2     | 5,450                               | 9.9      | 7.0      | 8,957                    | 16.3     | 5.8      | 20,690                       | 38.3     | 12.0     | 55,068 |
| 2007    | 1,556                          | 2.3      | 54.8     | 2,657                                | 3.9      | 12.3     | 7,787                          | 11.3     | 87.3     | 14,000                | 20.4     | 18.1     | 6,107                               | 8.9      | 12.1     | 9,585                    | 14.0     | 7.0      | 26,916                       | 39.2     | 30.1     | 68,608 |
| 2008    | 2,045                          | 2.7      | 31.4     | 2,606                                | 3.5      | -1.9     | 9,554                          | 12.8     | 22.7     | 13,926                | 18.6     | -0.5     | 6,562                               | 8.8      | 7.5      | 9,539                    | 12.8     | -0.5     | 30,535                       | 40.8     | 13.4     | 74,767 |
| 2008/11 | 1,937                          | 2.7      | -        | 2,445                                | 4.4      | -        | 9,188                          | 13.0     | -        | 13,072                | 18.5     | -        | 6,190                               | 8.8      | -        | 8,879                    | 12.6     | -        | 28,822                       | 40.9     | -        | 70,533 |
| 2009/11 | 1,437                          | 2.9      | -25.8    | 1,913                                | 3.8      | -21.8    | 5,279                          | 10.5     | -42.5    | 8,739                 | 17.4     | -33.1    | 5,482                               | 10.9     | -11.4    | 5,936                    | 11.8     | -33.1    | 21,519                       | 42.8     | -25.3    | 50,305 |

Source: Undersecretariat of prime ministry for foreign trade, Turkey

## **ANNEX II: BILATERAL RELATIONS BETWEEN THE EU AND TURKEY**

The following text briefly presents the chronology of Turkey EU relations and the current stage of Turkey's process of integration with the EU, (1959-2009)

31 July 1959 – Turkey applies for associate membership in the European Economic Community.

12 September 1963 – Association Agreement signed, acknowledging the final goal of membership.

1 December 1964 – Association Agreement comes into effect.

23 November 1970 – Protocol signed providing a timetable for the abolition of tariffs and quotas on goods.

1980 – Freeze in relations following the 1980 Turkish coup d'état.

1983 – Relations fully restored following elections.

14 April 1987 – Application for formal membership into the European Community.

18 December 1989 – European Commission refuses to immediately begin accession negotiations, citing Turkey's economic and political situation, poor relations with Greece and their conflict with Cyprus, but overall reaffirming eventual membership as the goal.

6 March 1995 – European Union-Turkey Customs Union is formed.

12 December 1999 – European Council recognises Turkey as a candidate on equal footing with other potential candidates.

12 December 2002 – European Council states that "the EU would open negotiations with Turkey 'without delay' if Turkey fulfills the Copenhagen criteria."

2004 – Turkey & Turkish Republic of Northern Cyprus back the Annan Plan for Cyprus.

17 December 2004 – European Union agrees to start negotiations.

3 October 2005 – Opening of 6 chapters of the *acquis*: Right of Establishment & Freedom To Provide Services, Company Law, Financial Services, Information Society & Media, Statistics, and Financial Control.

12 June 2006 – Chapter on Science & Research opened and closed.

11 December 2006 – Continued dispute over Cyprus prompts the EU to freeze talks on 8 chapters and state that no chapters would be closed until a resolution is found

29 March 2007 – Chapter on Enterprise & Industrial Policy opened.

25 June 2007 – Chapter on Statistics & Financial Control opened, but the opening of the chapter on Economic & Monetary Policy was blocked by French President Nicolas Sarkozy.

20 December 2007 – Chapters on Health & Consumer Protection and Trans-European Networks are opened.

17 June 2008 – Chapters on Company Law and Intellectual Property Law are opened.

19 December 2008 – Chapters on Economic & Monetary Policy and Information Society & Media are opened.

30 June 2009 – Chapter on Taxation is opened.

8 December 2009 – Chapter on Environment is opened.

### **ANNEX III: INTEGRATION OF TURKEY WITH THE OUTSIDE WORLD.**

Turkey became a member of the WTO on 26 March 1995. Turkey signed an FTA agreement with EFTA<sup>14</sup> on 10 December 1991 and The agreement entered into force on 1 April 1992. Also, it has signed an FTA with Israel, the former Yugoslav Republic of Macedonia, Croatia, Bosnia-Herzegovina, Tunisia, Morocco, the Palestinian Authority, Syria, Egypt, Georgia and Albania. Turkey is also part of the Euro-Mediterranean Partnership, aiming at establishing a free trade area in the region by 2010; the Economic Cooperation Organization (ECO); and the Black Sea Economic Cooperation (BSEC). Further more Turkey is the meber of Organization of Islamic Conference (OIC) and Developing-8.

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<sup>14</sup> EFTA is the European Free Trade Association formed by Iceland, Norway, Switzerland, and Liechtenstein.

## **ANNEX IV: BACKGROUND INFORMATION ON COMMUNITY ASSISTANCE TO TURKEY**

### **IPA**

The Instrument of Pre- Accession (IPA) is a new programme of financial support to the countries of the Western Balkans plus Turkey, as a support to their pre- accession activities and reforms. This programme started in 2007 and replaced CARDS and several other EU programmes of financial support (such as PHARE, ISPA and SAPARD). A total amount of €1.602 billion allocated to Turkey between 2007-2009 for democratisation, Rule of Law, Human rights, minority rights and EU Turkey civil dialog projects. They are also to spend for Cohesion Policy and rural development projects.

### **TAIEX**

The Technical Assistance and Information Exchange (TAIEX) is an instrument of assistance of the EU to the New Member States (Czech Republic, Estonia, Greek Administration of Southern Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovak Republic, Slovenia, Bulgaria, Romania), Candidate Countries (Croatia, Macedonia and Turkey), Potential candidate countries and territories (Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo), European Neighbourhood Policy (Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Palestinian Authority, Syria, Tunisia and Ukraine) and the Others (Turkish Republic of Northern Cyprus and Russia).

The main beneficiaries of this instrument are civil servants working in public administration, the judiciary and law enforcement authorities, professional and commercial associations and interpreters and translators of legislative texts. The main activities of this instrument are training, study visits, seminars and workshops organised for beneficiaries.

Turkey has been taken to the TAIEX budget in 2002 and benefited from various technical assistance activities through expert missions, study visits and workshops on several *acquisition* chapters. TAIEX mechanism is largely demand driven and divided into different groups of beneficiary countries. Turkey, as being in "Candidate Countries" group, is receiving assistance on approximation, application and enforcement of EU legislation. According to the TAIEX 2007 data, including all beneficiary countries, 1.282 activities were realized whereas in 2008, the total number of activities for all beneficiary countries was 1.542. The total number of participants according to the all beneficiary countries was 36.972 in 2007 however; the number was 35.000 in 2008. As stated in the 2005 data, Turkey was in the third place with 4.278 participants in "Candidate Countries" group after Bulgaria and Romania. Moreover, by engaging in 83 activities, Turkey was again in the third place in "Candidate Countries" group.

According to 2008 activity report, Turkey realized 102 activities and 6.274 participants from Turkey enjoyed TAIEX technical assistance. With membership of Bulgaria and Romania to the Union in January 200, Turkey's ranking increased to the first place both for the total number of activities and for the total number of participants when the countries in the "New Member States" group are excluded.

In 2008, most of the TAIEX activities were realized on the "Freedom, Security and Justice" issues. Rights of suspects, prevention of terrorism, financing of terrorism, combating money laundering, investigating child pornography, cyber crime, crime prevention, use of force by police and data protection in relation to police were dealt with in this issue. A major seminar took place on counterfeiting of the Euro. In 2008, the most important issue was the training of the Turkish National Police on various subjects. Two major seminars on the "Reorganisation of the Judicial Inspection Board with regard to the Independence of

the Judiciary" took place in Istanbul and more than 400 judges who could benefit from the experience of judges from the EU Member States regrouped in Ankara. Major seminars were related to the political criteria in which themes were "Freedom of Expression", "Improvement of Women Rights and Combatting Violence against Women", "Trade Union Rights", "Freedom of Assembly and Association", "Children's Rights", "Turkish and EU Practices in Control of Detention Centres", "Promotion of Gender Equality", "Use of Force by Law Enforcement Agencies", "Methods to Combat and Prevent Corruption."

Turkey was also involved in many activities on other issue areas in 2008. For instance, Regional Training Programme (RTP) was meaningful and useful for Turkey. 52 experts from Turkey have been trained in Brussels. Once the training was finalised, the Regional Training Programme took off at a very rapid and important pace in Turkey, with 12 seminars organised at regional level on the environment *acquis*, of which most popular topics were: water legislation and management, hazardous waste management. In the food safety field, 16 seminars have also been organised in the first year RTP existence in Turkey on subjects relating to New Hygiene Package, approval of establishments, traceability and microbiological criteria for food stuff.

## TWINNING

Twinning is another instrument for the support of cooperation between institutions of the EU countries and their counterparts in the candidate and potential candidate countries. New member states were excluded from this instrument after their accession to the EU. Its implementation started in 1998, and so far more than 1,000 projects have been conducted through this programme. At the Thessaloniki summit in 2003, the decision was made that all countries which are beneficiaries of the CARDS programme are also eligible for the Twinning instrument. The activities of this instrument were mainly funded through the CARDS programme up to 2006 and the IPA afterwards.

### Number of Twinning Projects (2002-2007)

| Year         | Number of Total Projects | Number of Cancelled Projects | Selection or Circulation | Preparation | Ongoing Projects | Completed Projects | Final Report Approved |
|--------------|--------------------------|------------------------------|--------------------------|-------------|------------------|--------------------|-----------------------|
| 2002         | 13                       | 2                            | -                        | -           | -                | 11                 | 11                    |
| 2003         | 19                       | 2                            | -                        | -           | 4                | 13                 | -                     |
| 2004         | 22                       | 2                            | -                        | -           | 17               | 3                  | -                     |
| 2005         | 6                        | -                            | -                        | -           | 6                | -                  | -                     |
| 2006         | 12                       | -                            | -                        | -           | -                | -                  | -                     |
| 2007         | 11                       | -                            | 2                        | 9           | 9                | -                  | -                     |
| <b>Total</b> | <b>83</b>                | 6                            |                          |             | <b>36</b>        | <b>27</b>          | <b>11</b>             |
|              | <b>77</b>                |                              |                          |             |                  |                    |                       |







## DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

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